

Private Medical Care Expenditures and Voluntary Health Insurance, 1948-60

by LOUIS S. REED*

PRIVATE expenditures for medical care in the United States amounted in 1960 to \$19.6 billion. This total was nearly \$1.6 billion more than that spent in 1959.

The data presented here for 1960 represent a continuation of a series of annual estimates made by the Division of Program Research and published each year, generally in the December issue of the BULLETIN. Slight adjustments have been made in the data for 1958 and 1959, published in the December 1960 issue, for conformity with adjustments made by the Department of Commerce in its series.

DEFINITIONS AND SOURCES

Private medical care expenditures, as set forth here, are the expenditures made directly by consumers or by health insurance plans on their behalf. They include payments made by patients for care in government hospitals. Payments made by government agencies to hospitals, physicians, and other suppliers of care under State and local public assistance programs and under two Federal programs—Medicare (the medical care program of the Department of Defense for dependents of members of the armed services) and the Veterans Administration “home town” programs—are excluded. Federal, State, and local government contributions for health insurance for government employees are included, however, as are all employer contributions or payments for health insurance for their employees.

Private contributions to hospitals or voluntary health agencies are excluded from the definition. Also excluded are business payments to hospitals, physicians, and the like for in-plant health services, medical care of injured workers under workmen's compensation, and life insurance examinations.

Hospital and medical benefits paid by insur-

ance carriers under the temporary disability programs of New York and California are, however, included. (These programs are established by law but provide benefits through private carriers.) Benefits paid under the public disability insurance program of California are excluded.

The data in this article are taken, in part, from estimates prepared by the National Income

TABLE 1.—Private expenditures for medical care: Amount and percentage distribution, by type of service, 1948-60¹

Type of expenditure	1948	1950	1955	1958	1959	1960
Amount (in millions)						
Total.....	\$7,647	\$8,645	\$12,849	\$16,596	\$18,020	\$19,566
Hospital care ²	1,689	2,126	3,512	4,522	4,805	5,324
Physicians' services ³	2,380	2,462	3,254	4,316	4,730	5,090
Dentists' services ⁴	900	961	1,508	1,850	1,894	1,992
Drugs and drug sundries ⁵	1,466	1,719	2,473	3,310	3,604	3,930
Eyeglasses and appliances ⁶	431	486	685	991	1,185	1,219
Other professional services ⁷	445	482	653	787	842	886
Nursing-home care ⁸	100	110	150	200	220	280
Health insurance, net cost ⁹	256	299	614	620	740	845
Percentage distribution						
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Hospital care.....	22.1	24.6	27.3	27.2	26.7	27.2
Physicians' services.....	30.9	28.5	25.3	26.0	26.2	26.0
Dentists' services.....	11.8	11.1	11.7	11.1	10.5	10.2
Drugs and drug sundries.....	19.2	19.9	19.2	19.9	20.0	20.1
Eyeglasses and appliances.....	5.6	5.6	5.3	6.0	6.6	6.2
Other professional services.....	5.8	5.6	5.1	4.7	4.7	4.5
Nursing-home care.....	1.3	1.3	1.2	1.2	1.2	1.4
Health insurance, net cost.....	3.3	3.5	4.8	3.7	4.1	4.3

¹ For data for years not given here, see earlier articles in this series (*Social Security Bulletin*, January 1950 and December of each year 1951-60). Consumer expenditures include employer contributions to health insurance or health plans for employees. Excludes expenditures made by government agencies and by business enterprises (except as contributions to health insurance) and philanthropic contributions to hospitals. Data exclude Puerto Rico, the Virgin Islands, and Guam and, except for 1960, Alaska and Hawaii.

² Estimated in recent years from data in the annual Guide Issue of *Hospitals* on patient revenues or operating expense, adjusted for estimated patient revenues in government hospitals, less government payments for hospital care under public programs.

³ Department of Commerce estimate (*Survey of Current Business*, July of each year) plus estimated salaries to physicians in group-practice prepayment plans and student health services. Department of Commerce estimate is income of physicians in private practice less income from nonconsumer sources—business, workmen's compensation, and government programs.

⁴ Department of Commerce estimate of personal consumption expenditures for these items (*Survey of Current Business*, July of each year).

⁵ Estimated on basis of estimated patient days of care in skilled nursing homes, multiplied by estimated average per diem cost.

⁶ Difference between income and benefit expenditures of all health insurance plans, from table 5.

* Division of Program Research, Office of the Commissioner.

Division of the Department of Commerce on personal consumption expenditures for medical care—estimates made as part of their estimates of all personal consumption expenditures and published each year in the July issue of the *Survey of Current Business*. The estimates made by the Division of Program Research differ from those of the Department of Commerce in the following respects: The figures used in this series include total private expenditures for hospital care; the data from the National Income Division include only expenditures in privately controlled hospitals and lump together hospitals and private nursing homes. The Social Security Administration figure for physicians' services is based on the figure from the National Income Division (estimated from the tax returns of physicians in solo or partnership service) but has been adjusted to take account of salaries paid to physicians in group-practice prepayment plans. The National Income Division's estimate of net expenditures for health insurance includes both medical care and disability insurance; the Social Security Administration data represent the net cost of insurance to obtain medical care only.

The distribution of medical care expenditures

by type of service may be presented in two ways: by what the money is eventually spent for and by the nature of the initial expenditures. The difference between the two, of course, arises from health insurance. A considerable part of the private expenditures for health care is made in the form of premium payments for health insurance. Part of these premium payments is used by insurance carriers to pay hospitals, physicians, and others for services provided to covered persons;¹ part is retained by the carriers to cover administrative expenses, additions to reserves, and profits. Hence the consumer's expenditure for health insurance is in part an expenditure for medical care and in part an expenditure for the risk-sharing and other services of health insurance. When, therefore, one is concerned with the proportion of the medical dollar used for a particular type of care, a decision must be made whether to allocate the cost of obtaining health insurance to each service or to treat it as a separate expenditure item. Both concepts are useful.

¹ Some part, of course, is paid back to policyholders to reimburse them for sickness expenses that they have incurred, but in principle such amounts may be considered as payments to those providing the services.

CHART 1.—Private medical care expenditures: Percentage distribution, by type of service, 1948 and 1960

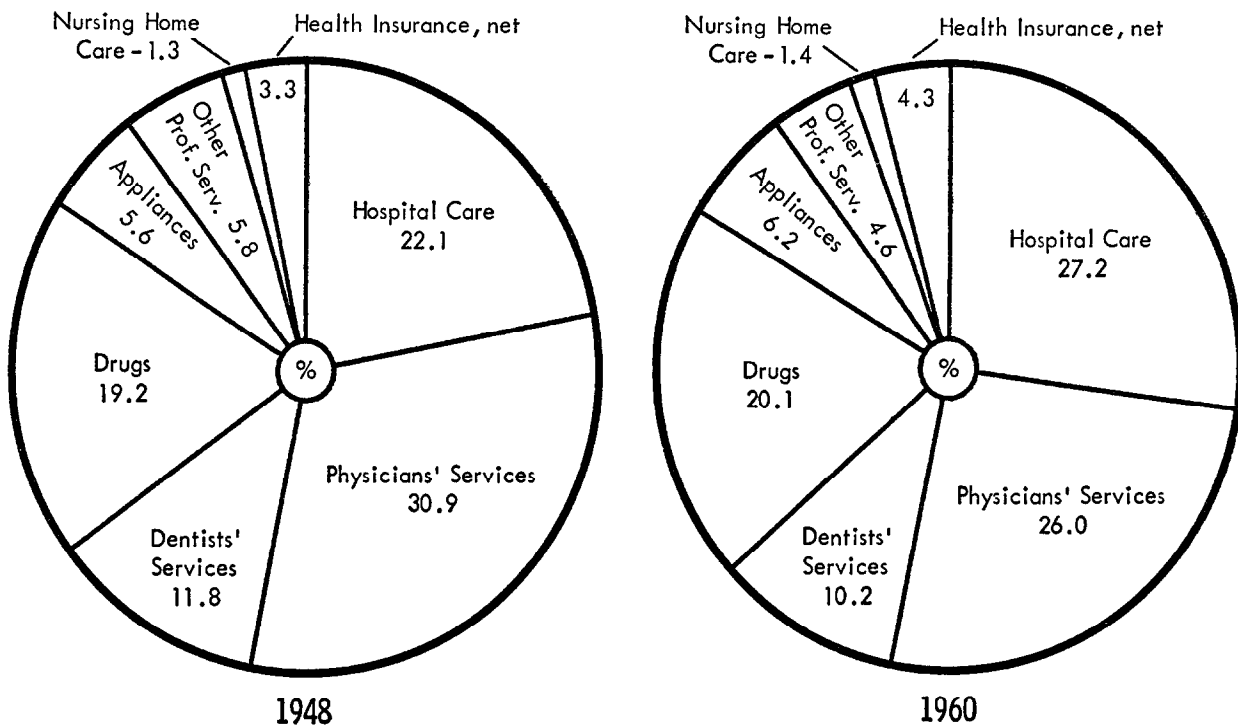


TABLE 2.—Private expenditures for medical care: Amount and percentage distribution, by type of expenditure, 1948-60¹

Type of expenditure	1948	1950	1955	1958	1959	1960
Amount (in millions)						
Total.....	\$7,647	\$8,645	\$12,849	\$16,596	\$18,020	\$19,566
Direct payments.....	6,785	7,354	9,699	12,099	12,881	13,725
Payments for						
insurance.....	862	1,291	3,150	4,497	5,139	5,841
Benefits.....	606	982	2,536	3,877	4,399	4,996
Insurance service.....	256	299	614	620	740	845
Hospitalization.....	1,881	2,315	3,851	4,863	5,244	5,843
Direct payments.....	1,234	1,440	1,833	1,931	1,860	1,967
Payments for						
insurance.....	647	869	2,018	2,932	3,384	3,876
Benefits.....	455	680	1,679	2,591	2,945	3,357
Insurance service.....	192	189	339	341	439	519
Physicians' care.....	2,424	2,572	3,529	4,595	5,032	5,416
Direct payments.....	2,209	2,150	2,397	3,030	3,277	3,451
Payments for						
insurance.....	215	422	1,132	1,565	1,755	1,965
Benefits.....	151	312	857	1,286	1,454	1,639
Insurance service.....	64	110	275	279	301	326
All other (direct payments only).....	3,342	3,758	5,469	7,138	7,744	8,307
Percentage distribution						
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Direct payments.....	88.7	85.1	75.5	72.9	71.5	70.1
Payments for						
insurance.....	11.3	14.9	24.5	27.1	28.5	29.9
Benefits.....	7.9	11.5	19.7	23.4	24.4	25.5
Insurance service.....	3.4	3.4	4.8	3.7	4.1	4.4
Hospitalization.....	24.6	26.8	30.0	29.3	29.1	29.9
Direct payments.....	16.1	16.7	14.3	11.6	10.3	10.0
Payments for						
insurance.....	8.5	10.1	15.7	17.7	18.8	19.9
Benefits.....	6.0	7.9	13.1	15.7	16.4	17.2
Insurance service.....	2.5	2.2	2.6	2.0	2.4	2.7
Physicians' care.....	31.7	29.7	27.5	27.7	27.9	27.7
Direct payments.....	28.9	24.9	18.7	18.3	18.2	17.7
Payments for						
insurance.....	2.8	4.8	8.8	9.4	9.7	10.0
Benefits.....	1.9	3.6	6.6	7.7	8.0	8.4
Insurance service.....	.9	1.2	2.2	1.7	1.7	1.6
All other (direct payments only).....	43.7	43.5	42.5	43.0	43.0	42.4

¹ Data from tables 1 and 5.

As in earlier years, estimates are presented that make it possible to derive figures on either basis. The form of presentation has been somewhat simplified this year. Table 1 shows the distribution of the private medical dollar by type of service, with the net cost of health insurance treated as a single item. In table 2, the net cost of insurance for hospital care and that for physicians' services is included with insurance benefits and direct payments as a cost of hospitalization or of physicians' care. As will be discussed in more detail later, the distribution of insurance benefits and the net cost of health insurance between types of service is somewhat rough. Some expenditures for drugs, private-duty nursing, dental care, nursing-home care, and appliances are now made through health insurance. The amounts spent for insur-

ance for these items are as yet relatively small, and there is no good basis for estimating them separately. They are included in table 2 and later tables, primarily with expenditures for physicians' services.

TOTAL PRIVATE EXPENDITURES FOR MEDICAL CARE

In terms of the type of service for which the money eventually went (table 1 and chart 1), 27.2 percent of the total expenditures was made for hospital care; an almost equal amount, 26.0 percent, for physicians' services in private practice and private group clinics; 20.1 percent for drugs, surgical supplies, and drug sundries; and 10.2 percent for dentists' services. Eyeglasses, orthopedic appliances, and hearing aids accounted for 6.2 percent; other professional services (those of osteopathic physicians, chiropractors, podiatrists, private-duty nurses, and other professional groups providing health services) accounted for 4.5 percent; and nursing-home care for 1.4 percent. Net expenditures to obtain health insurance service—the difference between total premiums paid to all health insurance organizations and the total expenditures for benefits made by them—amounted to \$845 million or 4.3 percent of all private medical expenditures.

In terms of initial expenditures (table 2), 70.1 percent of the total was spent in direct payments to hospitals, physicians, dentists, druggists, and so on, and 29.9 percent in payments for insurance. Of the total, 29.9 percent went for

TABLE 3.—Private medical care expenditures and national disposable personal income, 1948-60

Year	Disposable personal income ¹	Private medical care expenditures	
		Total expenditures	As percent of disposable personal income
1948.....	\$189,300	\$7,647	4.0
1950.....	207,655	8,645	4.2
1955.....	274,448	12,849	4.7
1958.....	317,024	16,596	5.2
1959.....	3 7,349	18,020	5.3
1960.....	351,823	19,566	5.6

¹ Survey of Current Business, July 1961, pp. 8-9.

hospital care and hospital insurance, 27.7 percent for physicians' services and insurance covering these services, and 42.4 percent in direct payments for all other items of care.

It is obvious that during the past 12 years there have been important changes in the distribution of private medical care expenditures, both by type of service and by type of expenditures. The share of the private medical care dollar going for hospital care is larger now than in 1948, and the proportion spent for physicians' services is smaller. The share of the total spent for dental care has decreased slightly; that for drugs has increased slightly. The net expenditure for health insurance services, as a proportion of the total, has also increased.

Private expenditures for medical care represent approximately three-fourths of total national expenditures, private and public, for health purposes, exclusive of research and construction of facilities. A large share of all public expenditures for personal health services goes for hospital care, including the services of salaried medical staff. (This hospital care item consists chiefly of Federal expenditures for maintenance of the Veterans Administration hospitals and the net expenditures of State and local governments for maintaining mental, tuberculosis, and general hospitals.) A distribution of total national expenditures for personal health services would thus show a larger proportion going for hospital care and less for all the other items.

Private medical care expenditures in 1960 were equal to 5.6 percent of national disposable personal income. Since 1948, when the percentage was 4.0, there has been a regular and substantial increase in the proportion going for medical care (table 3). Per capita private expenditures

for medical care (total expenditures in relation to the civilian population) amounted in 1960 to \$109.62—more than double the 1948 amount (table 4). There has been a more or less continuous increase in per capita expenditures for all items of medical care. The per capita net expenditures to obtain health insurance dropped, however, from 1955 to 1958; since 1958 the increase has been resumed. The temporary drop was the result of reductions in administrative expenses, additions to reserves, and profits of health insurance plans.

MEDICAL CARE INSURANCE

At the end of 1960, according to estimates by the Health Insurance Council, 73 percent of the civilian population had some form of hospital insurance or prepayment, 67 percent had some type of insurance against surgical costs, and 48 percent had insurance for other types of physicians' services, mainly services in the hospital.

Table 5 shows, for the various types of voluntary health insurance plans in 1960, the income, expenditures for benefits, and amounts retained for administrative expenses, reserves, and profits. The data relate only to medical care insurance and do not include insurance providing cash payments for disability.

In 1960 the total premium income of all health insurance plans amounted to \$5.8 billion, of which \$2.5 billion represented the earned premium income of the Blue Cross and Blue Shield plans, \$3.0 billion the premiums of insurance companies for both group and individual business, and \$0.3 billion the income of all other health insurance plans. Among the latter—the so-called independent plans—the community- and consumer-sponsored plans and those sponsored by employers, employees, unions, or jointly managed welfare funds are predominant.

The premium income of all insurance plans represents, of course, the total expenditures of the buying public for health insurance. Of the total income received by all insurance plans, \$3.8 billion was for hospital services and \$2.0 billion for physicians' services. This distribution is made, in part, on the basis of estimated figures and, as will be indicated later, contains some degree of inexactness.

TABLE 4.—Per capita private expenditures for medical care, 1948-60¹

Type of expenditure	1948	1950	1955	1958	1959	1960
Total.....	\$52.68	\$57.56	\$79.17	\$96.81	\$103.13	\$109.82
Hospital care.....	11.63	14.15	21.64	26.38	27.50	29.88
Physicians' services.....	18.26	16.39	20.05	25.18	27.07	28.57
Dentists' services.....	6.20	6.40	9.29	10.79	10.84	11.18
Medicines.....	10.10	11.44	15.24	19.31	20.63	22.08
Appliances.....	2.97	3.24	4.22	5.78	6.78	6.84
Other professional services.....	3.07	3.21	4.02	4.59	4.82	4.97
Nursing-home care.....	.69	.73	.92	1.17	1.26	1.57
Health insurance, net cost.....	1.76	1.99	3.78	3.62	4.24	4.74

¹ Data from table 1, related to civilian population as of July 1 of each year.

Total expenditures for benefits of all health insurance plans amounted in 1960 to \$5.0 billion. Approximately \$3.4 billion was for hospital services and \$1.6 billion for physicians' services.

The difference between income and benefit expenditures is retained by the plans to cover operating costs. This amount represents for consumers the net expense of obtaining insurance. The total in 1960 was \$845 million, of which \$519 million represented the net cost to consumers of insurance for hospital care and \$326 million the net cost of insurance for physicians' services.

The data for the Blue Cross and Blue Shield plans, shown in table 5, were obtained from the national organizations representing these plans. The data permit a fairly exact allocation of premium income and benefit expenditures between hospital care (inpatient and outpatient) and physicians' services. Some of the Blue Cross plans, however, have "extended benefit" programs, under which they pay for nursing-home care, some nursing services, and drugs. Some Blue Shield plans pay for dental surgical care in the hospital, and some have extended benefit programs under which drugs and nursing services as well as physicians' services are paid for. The benefit expenditures for items other than hospital care and physicians' services, for which no data are available, are increasing but are as yet relatively unimportant in the total.

Data on the income and benefit expenditures of insurance companies, for both their group and individual business, were provided by the Health Insurance Association of America. This association has estimated the allocation of premium income and benefit expenditures between hospital care and physicians' services.

Under the "major medical" or "comprehensive" policies of insurance companies, a single premium is paid and benefit expenditures are made for many different items of health care—nursing service, drugs, nursing-home care, and appliances, as well as hospital care and physicians' services. Exact data on the expenditures made under these programs for each item of medical care are unavailable. The association has estimated the allocation of benefits between the two major items—hospital care and physicians' services—and has grouped expenditures for nursing services, drugs, nursing-home care, and so on with those for physicians' services. Income has been allocated between hospital care and physicians' services on the same basis. The effect of this method of allocation is that the amounts shown for insurance benefits for physicians' services are larger than they should be. As a result, the amounts shown for direct payments to physicians are too low.

The national organizations of the Blue Cross and Blue Shield plans, the Health Insurance As-

TABLE 5.—Income, expenditures for benefits, and amounts retained for operating costs of voluntary health insurance plans, by type of carrier or plan, 1960¹

[In millions]

Type of carrier or plan	Income ²			Benefit expenditures ³			Amounts retained for operating costs ⁴		
	Total	For hospital services	For physicians' services	Total	For hospital services	For physicians' services	Total	For hospital services	For physicians' services
Total.....	\$5,841.0	\$3,875.7	\$1,965.3	\$4,996.3	\$3,357.2	\$1,639.1	\$844.7	\$518.5	\$326.2
Blue Cross-Blue Shield plans.....	2,482.1	1,767.3	714.8	2,287.1	1,642.5	644.6	195.0	124.8	70.2
Blue Cross plans ⁵	1,773.0	1,731.0	42.0	1,646.2	1,610.1	36.1	126.8	120.9	5.9
Blue Shield plans ⁶	709.1	36.3	672.8	640.9	32.4	608.5	68.3	3.9	64.3
Insurance companies.....	3,027.0	1,979.0	1,048.0	2,389.0	1,586.0	803.0	638.0	393.0	245.0
Group.....	2,104.0	1,311.0	793.0	1,901.0	1,232.0	669.0	203.0	79.0	124.0
Individual.....	923.0	668.0	255.0	488.0	354.0	134.0	435.0	314.0	121.0
All other plans.....	331.9	129.4	202.5	320.2	128.7	191.5	11.7	.7	11.0
Medical society, not Blue Shield.....	2.5	.9	1.6	2.2	.8	1.4	.3	.1	.2
Community and consumer.....	129.3	36.0	93.3	122.2	34.7	87.5	7.1	1.3	5.8
Employer-employee-union.....	181.9	88.5	93.4	179.8	89.6	90.2	2.1	-1.1	3.2
Private group clinics.....	11.2	1.2	10.0	9.2	.9	8.3	2.0	.3	1.7
Student health services.....	7.0	2.8	4.2	6.8	2.7	4.1	.2	.1	.1

¹ Data for Blue Cross and Blue Shield plans from the national organization of these plans. Data for insurance companies from the Health Insurance Association of America. Data on "other plans" from periodic surveys by the Division of Program Research, except for student health services for which the data are estimates based on available data. Data include medical care insurance premiums and benefits paid under the temporary disability insurance laws of California and New York.

² Earned premium income for Blue Cross, Blue Shield, and insurance companies. Total income for other plans. Income apportioned between

hospital care and physicians' services on basis of expenditures for plans for which precise data were not available.

³ Claim expenses for Blue Cross, Blue Shield; losses incurred for insurance companies. Benefits paid or cost of providing benefits for most other plans.

⁴ Amount retained for administrative expenses, premium taxes, additions to reserves, and profits.

⁵ Includes data for Health Services, Inc.

⁶ Includes data for Medical Indemnity of America.

sociation of America, and the Division of Program Research are aware of the inexactness resulting when all benefit expenditures are classified under either hospital or physicians' services, and it is hoped that in subsequent years a more detailed breakdown of benefit expenditures may become possible.

Data on the income and benefit expenditures of all other plans—the “independents”—are based on biennial surveys of these plans made by the Division. The last complete survey, made in 1960, obtained data for the year 1959.² Through questionnaire replies and other sources, however, 1960 data were obtained for 15 of the larger plans. These plans have more than half the income and benefit expenditures of all the independent plans. Estimates were made for the other plans by assuming a 5-percent increase from 1959.

In classifying benefit expenditures of the independent plans, all benefit expenditures for dental care, special nursing, drugs, and appliances were included in the expenditures for physicians' services. In plans furnishing both physicians' services and hospital care, it was assumed that premium income was divided between these two

items in the same proportion as benefit expenditures. The classification of dental care, drugs, and so on with physicians' services introduces an element of inaccuracy—as yet probably minor—that shows insurance benefits for physicians' services as somewhat larger than they really are.

GROWTH IN INSURANCE PROTECTION

Table 6 shows the growth in income and benefit expenditures of the major types of carriers or plans during the period 1948–60. Since 1948 premium income of all health insurance plans has increased sixfold. The highest rates of growth have been for Blue Cross-Blue Shield and the group business of insurance companies. The increase in the individual policy business of insurance companies and of “all other plans” has been less.

The percentage distribution of premium income and benefit expenditures among the major types of plans is shown in table 7 for selected years from 1950 to 1960. During this period the share of Blue Cross-Blue Shield in total premium income decreased from 44.5 percent to 42.5 percent of the total, while that for insurance companies increased from 46.9 percent to 51.8 percent (chart 2). The proportion of total premium income received by “all other” plans declined

² See “Independent Plans Providing Medical Care and Hospital Insurance: 1959 Survey,” *Social Security Bulletin*, February 1961.

CHART 2.—Premium income of all health insurance plans: Percentage distribution, by type of plan, 1950 and 1960

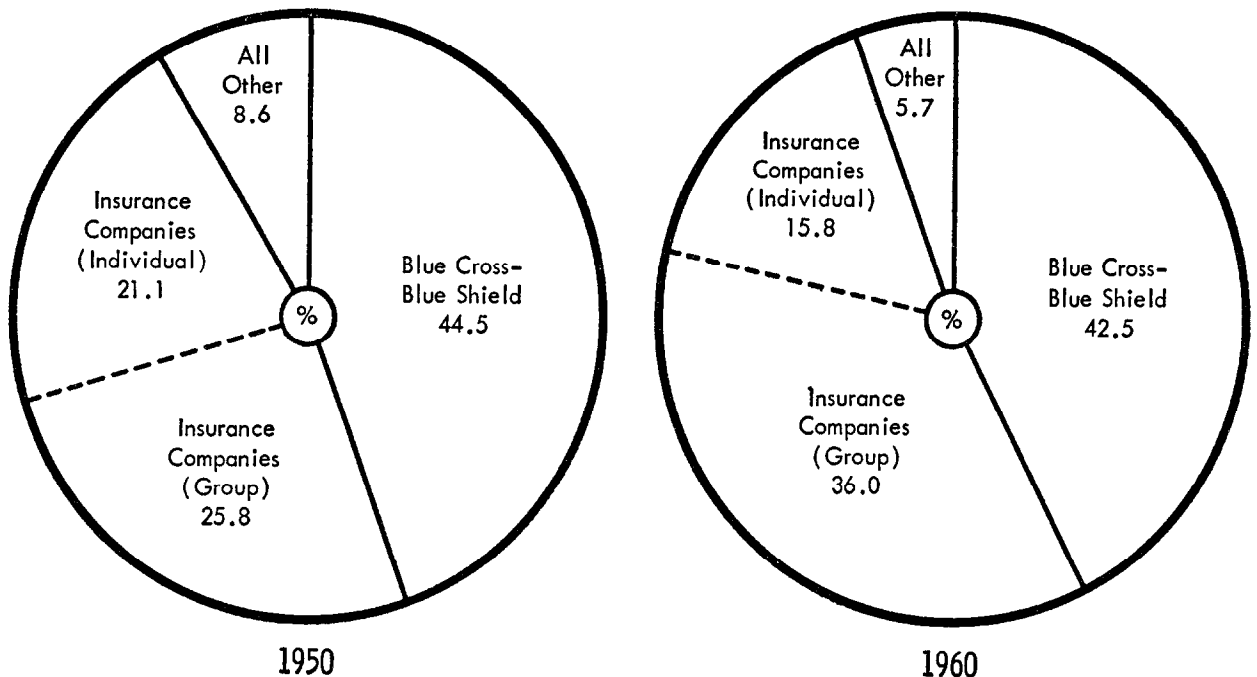


TABLE 6.—Income and benefit expenditures of voluntary health insurance plans, by major type of carrier or plan, 1948-60¹

[In millions]

Year	Total	Blue Cross-Blue Shield plans			Insurance companies			All other plans
		Total	Blue Cross	Blue Shield	Total	Group	Individual	
Income								
1948	\$862.0	\$365.0	\$315.0	\$50.0	\$421.0	\$212.0	\$209.0	\$89.0
1949	1,015.5	455.3	362.2	93.1	461.0	241.0	220.0	99.0
1950	1,291.5	574.0	436.7	137.3	605.0	333.0	272.0	112.5
1951	1,660.3	684.9	505.5	179.4	797.6	468.6	329.0	177.8
1952	1,993.4	851.3	616.2	235.1	957.6	569.0	388.6	184.5
1953	2,405.3	988.6	708.4	280.2	1,181.4	722.6	458.8	235.3
1954	2,750.3	1,133.7	806.5	330.0	1,389.6	867.3	522.3	233.0
1955	3,149.6	1,292.4	910.7	381.7	1,626.9	1,022.5	604.4	230.3
1956	3,623.7	1,493.2	1,046.3	446.9	1,839.1	1,216.3	622.8	291.4
1957	4,143.9	1,667.8	1,162.9	504.9	2,175.0	1,476.0	699.0	301.1
1958	4,497.8	1,866.9	1,306.3	561.1	2,314.0	1,606.0	780.0	316.8
1959	5,139.2	2,157.4	1,522.5	634.9	2,639.0	1,853.0	786.0	342.8
1960	5,841.0	2,482.1	1,773.0	709.1	3,027.0	2,104.0	923.0	331.9
Expenditures for benefits								
1948	\$606.0	\$309.0	\$270.0	\$39.0	\$224.0	\$148.0	\$80.0	\$70.0
1949	766.8	382.8	308.6	74.2	295.0	180.0	115.0	89.0
1950	991.9	490.6	382.9	107.7	400.0	257.0	143.0	101.7
1951	1,352.6	605.0	454.0	151.0	587.5	415.5	172.0	160.1
1952	1,603.9	736.5	550.1	186.4	698.7	498.1	200.6	168.7
1953	1,919.2	851.5	626.8	224.7	854.7	625.8	228.9	213.0
1954	2,178.9	984.6	718.1	266.5	983.0	716.6	266.4	211.3
1955	2,535.7	1,146.7	832.2	314.5	1,179.0	858.0	321.0	213.0
1956	3,014.7	1,353.7	968.1	385.6	1,410.6	1,082.5	328.1	250.4
1957	3,474.0	1,547.0	1,106.0	441.0	1,655.0	1,318.0	337.0	272.0
1958	3,877.3	1,768.0	1,268.8	499.2	1,809.0	1,464.0	345.0	300.3
1959	4,398.8	1,994.8	1,424.3	570.5	2,080.0	1,680.0	400.0	324.0
1960	4,996.3	2,287.1	1,646.2	640.9	2,389.0	1,901.0	488.0	320.2

¹ Data for Blue Cross and Blue Shield plans from the national organizations of these plans. Data on insurance companies from the Health Insurance Association of America. Data on "all other" plans from periodic surveys made by the Division of Medical Research.

from 8.6 percent to 5.7 percent.³ Benefit expenditures of Blue Cross-Blue Shield were 45.8 percent of the total—down from 49.5 percent in 1950; and those of the insurance companies were 47.8 percent—up from 40.3 percent in 1950. The "other plans" paid or provided benefits equal to 6.4 percent of the total, down from 10.2 percent in 1950. The showing, when hospital and physicians' services are considered separately, is about the same.

Table 8 shows the benefit and retention ratios in 1960 of the various types of plans as a percentage of premium income. For all plans together, benefit expenditures were 85.5 percent of income. Benefit expenditures were 92.8 percent of income for Blue Cross and a little less, 90.4 percent, for Blue Shield. Insurance companies in the aggregate had a benefit expenditure (loss) ratio of 78.9 percent—90.4 percent for

³ Part of this decline results from the fact that some formerly independent medical-society-sponsored plans have become Blue Shield plans.

TABLE 7.—Income and benefit expenditures of voluntary health insurance plans: Total amount and percentage distribution for hospital services and physicians' services, by major type of carrier or plan, 1950-60¹

Type of carrier or plan	1950	1955	1958	1959	1960
	All hospital and physicians' services				
Income, amount (in millions).....	\$1,291	\$3,150	\$4,498	\$5,139	\$5,841
Total percent.....	100.0	100.0	100.0	100.0	100.0
Blue Cross-Blue Shield plans.....	44.5	41.0	41.5	42.0	42.5
Insurance companies.....	46.9	51.7	51.4	51.4	51.8
Group.....	25.8	32.5	35.7	36.1	36.0
Individual.....	21.1	19.2	15.7	15.3	15.8
All other.....	8.6	7.3	7.0	6.7	5.7
Expenditures, amount (in millions).....	\$992	\$2,536	\$3,877	\$4,399	\$4,996
Total percent.....	100.0	100.0	100.0	100.0	100.0
Blue Cross-Blue Shield plans.....	49.5	45.2	45.6	45.4	45.8
Insurance companies.....	40.3	46.5	46.7	47.3	47.8
Group.....	25.9	33.8	37.8	38.2	38.0
Individual.....	14.4	12.7	8.9	9.1	9.8
All other.....	10.2	8.3	7.7	7.3	6.4
Hospital services					
Income, amount (in millions).....	\$869	\$2,018	\$2,932	\$3,384	\$3,876
Total percent.....	100.0	100.0	100.0	100.0	100.0
Blue Cross-Blue Shield plans.....	50.2	45.0	44.2	44.9	45.6
Insurance companies.....	44.8	49.1	50.7	50.5	51.1
Group.....	22.8	30.7	33.2	33.7	33.8
Individual.....	22.0	18.4	17.5	16.8	17.2
All other.....	5.0	5.9	5.1	4.6	3.3
Expenditures, amount (in millions).....	\$630	\$1,679	\$2,591	\$2,945	\$3,357
Total percent.....	100.0	100.0	100.0	100.0	100.0
Blue Cross-Blue Shield plans.....	56.3	49.5	48.7	48.4	48.9
Insurance companies.....	37.3	44.1	45.8	46.6	47.2
Group.....	22.6	31.9	36.2	36.8	36.7
Individual.....	14.7	12.2	9.6	9.8	10.5
All other.....	6.4	6.4	5.5	5.1	3.8
Physicians' services					
Income, amount (in millions).....	\$422	\$1,132	\$1,565	\$1,756	\$1,965
Total percent.....	100.0	100.0	100.0	100.0	100.0
Blue Cross-Blue Shield plans.....	32.7	33.9	36.4	36.4	36.4
Insurance companies.....	51.2	56.2	52.8	53.0	53.3
Group.....	32.0	35.6	40.3	40.5	40.4
Individual.....	19.2	20.6	12.5	12.5	13.0
All other.....	16.1	9.0	10.8	10.6	10.3
Expenditures, amount (in millions).....	\$312	\$857	\$1,286	\$1,454	\$1,639
Total percent.....	100.0	100.0	100.0	100.0	100.0
Blue Cross-Blue Shield plans.....	34.6	36.7	39.2	39.3	39.3
Insurance companies.....	46.8	51.4	48.4	48.4	49.0
Group.....	33.0	37.7	41.0	41.1	40.8
Individual.....	13.8	13.7	7.5	7.6	8.2
All other.....	18.6	11.9	12.3	12.0	11.7

¹ Data for hospital services and physicians' services for 1948 not available by type of carrier. For years omitted here see the December issue of the *Bulletin*, 1951-54, 1959, and 1960.

their group policy business and 52.9 percent for their individual policy business. For all the "other plans," the ratio of the cost of benefits—either the expenditures for benefits purchased or the cost of service provided through their own facilities and staff—was 96.5 percent. The ratio was a little higher than in previous years because

TABLE 8.—Benefit and operating cost ratios of health insurance plans, by type of carrier or plan, 1960¹

Type of carrier or plan	Benefits as percent of income	Operating costs as percent of income
All plans.....	85.5	14.5
Blue Cross-Blue Shield plans.....	92.1	7.9
Blue Cross plans.....	92.8	7.2
Blue Shield plans.....	90.4	9.6
Insurance companies.....	78.9	21.1
Group.....	90.4	9.6
Individual.....	52.9	47.1
Other plans.....	96.5	3.5
Medical society, not Blue Shield.....	88.0	12.0
Community and consumer.....	94.5	5.5
Employer-employee-union.....	98.8	1.2
Private group clinics.....	82.1	17.9
Student health services.....	97.1	2.9

¹ Derived from table 5.

one large plan drew heavily upon reserves to pay out in benefits substantially more than it took in.

The difference between income and expenditures for benefits is retained by the carriers to cover the cost of operating the insurance program. Out of this must come administrative expenses, including selling; the premium taxes of 2-3 percent that must be paid by the insurance companies and a few Blue Cross and Blue Shield plans; and additions to reserves⁴ and profits. It should be clear that the amount retained for operating costs, as set forth here, is different from administrative expense. It would be possible for a plan to have a minus amount retained for operating costs in a given year if benefit expenditures were greater than income; the loss and administrative expenses would then be met from previously accumulated reserves or by borrowing.

Data were not obtained from the carriers on their administrative expenses, on additions (or subtractions) from reserves, or on underwriting profits for plans on a profitmaking basis. Although in any one year the amount retained for operating costs might be a minus quantity for any one plan or group of plans, in the long run the plans must retain enough to cover administrative expenses, to make necessary additions to reserves, and—among plans or carriers operated for profit—to leave sufficient profits to make their continued operation worthwhile. Consequently,

⁴ Additions to reserves are in a somewhat different category from administrative expenses and profits in that they are set aside for the provision of future benefits to subscribers or policyholders—that is, they are designed for eventual return to the purchasers of insurance.

the amount shown as retained may be considered as roughly equivalent to operating costs.

For all plans, operating costs as thus defined amounted to 14.5 percent of income. In terms of benefit expenditures, operating costs amounted to 16.9 percent.

Blue Cross plans had a net operating cost of 7.2 percent of income; Blue Shield plans 9.6 percent of income. For both together the ratio was 7.9 percent. The insurance companies as a combined group had an operating cost of 21.1 percent of income. The ratio for their group business was 9.6 percent, and for individual policy business it was 47.1 percent.

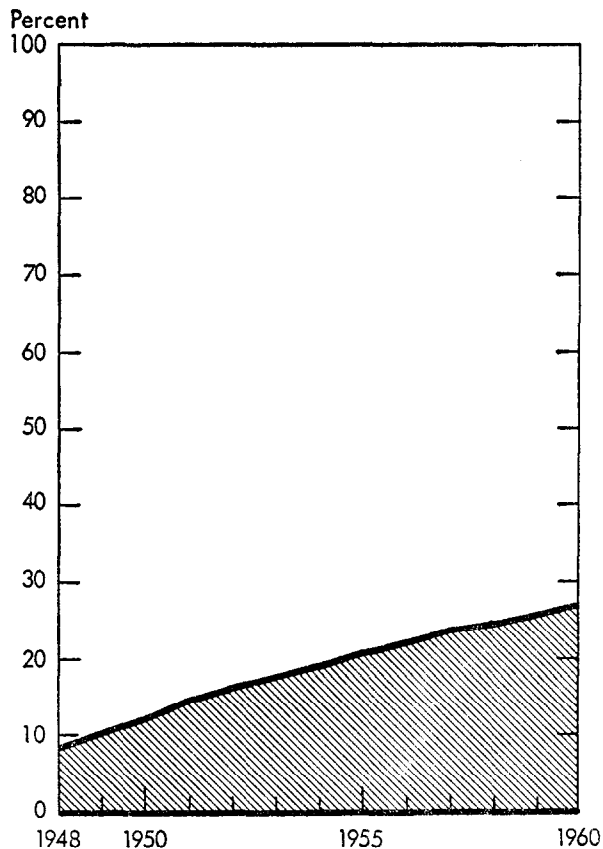
The independent plans had a net operating cost of 3.5 percent of income. The ratio varied from 17.9 percent for the private group clinics to 1.2 percent for the employer-employee-union plans. The last ratio is atypical and reflects the fact that one large welfare fund plan drew heavily upon reserves in this year. Among plans that provide service through their own facilities and staffs and do not purchase service from outside physicians or hospitals, operating costs may not be a very meaningful figure. A plan may find it difficult, for example, to accurately allocate certain expenses between administration of a prepayment program and the cost of administering a group clinic. Among the private group-clinic

TABLE 9.—Private expenditures for medical care: Amount and percent met by voluntary health insurance, 1948-60

[Amount in millions]

Year	Total medical care expenditures		Hospital services only		Physicians' services		Hospital and physicians' services	
	Amount	Percent met by insurance	Amount	Percent met by insurance	Amount	Percent met by insurance	Amount	Percent met by insurance
With expense to obtain insurance excluded								
1948.....	\$7,391	8.2	\$1,689	26.9	\$2,360	6.4	\$4,049	15.0
1950.....	8,346	11.9	2,126	32.0	2,462	12.7	4,588	21.6
1955.....	12,235	20.7	3,512	47.8	3,254	26.3	6,766	37.5
1958.....	15,970	24.5	4,522	57.3	4,316	29.8	8,838	43.9
1959.....	17,280	25.5	4,805	61.3	4,730	30.7	9,535	46.1
1960.....	18,721	26.7	5,324	63.1	5,090	32.2	10,414	48.0
With expense to obtain insurance included								
1948.....	7,647	7.9	1,881	24.2	2,424	6.2	4,305	14.1
1950.....	8,645	11.5	2,315	29.4	2,572	12.1	4,837	20.3
1955.....	12,849	19.7	3,851	43.6	3,529	24.3	7,380	34.4
1958.....	16,596	23.4	4,863	53.3	4,595	28.0	9,458	41.0
1959.....	18,020	24.4	5,244	56.2	5,032	28.9	10,276	42.8
1960.....	19,566	25.5	5,843	57.5	5,416	30.3	11,259	44.4

CHART 3.—Percent of private expenditures for medical care met by insurance, excluding expenditures to obtain insurance, 1948-60



prepayment plans, the relatively high operating cost ratio may reflect the fact that the physician owners preferred to take their remuneration largely in the form of profits instead of salaries.

PRIVATE EXPENDITURES MET THROUGH INSURANCE

In considering the proportion of expenditures for medical care met through insurance, it is important to define whether the expenditures include or exclude net expenditures to obtain insurance. Figures on both bases are useful but must be understood for what they are.

Table 9 presents the salient figures on both bases for selected years from 1948 to 1960. It will be seen that in 1960 insurance met 26.7 percent of total expenditures for medical care, excluding expense to obtain insurance. The proportion of total expenditures met through insurance increased by approximately 2 per-

centage points each year from 1948 to 1955. Since 1955 the growth in the proportion of expenditures met by insurance has been at a somewhat lower rate, a little more than 1 percentage point in each of the years 1958, 1959, and 1960 (chart 3).

Insurance met 63.1 percent of private expenditures (excluding those to obtain insurance) for hospital care in 1960 and 32.2 percent of total expenditures for physicians' services. For both hospital care and physicians' services, the proportion was 48.0 percent.

When net expenditures to obtain insurance are included as part of total expenditures, then in 1960 insurance met 57.5 percent of the expenditures for hospital care, 30.3 percent of those for physicians' services, and 25.5 percent of the total expenditures for all medical care.

Earlier articles in this series have shown the proportion of "currently insurable" and "potentially insurable" expenditures met through insurance. These estimates have been deleted from table 9 this year because of recent developments in medical care insurance.

The extent to which medical care expenses are insurable or should be insured against is, of course, controversial. At one time it was felt that physicians' services in the office and at home were not insurable or that there was no advantage to having prepayment or insurance coverage of these services. A substantial volume of insurance covering these services has, however, developed. Similarly, some years ago it was believed by many that there was no need for prepayment of dental care, but again interest in this type of prepayment has been manifest and a certain amount of dental prepayment or insurance has developed. The same pattern is apparent with respect to covering the cost of eyeglasses, appliances, and drugs. Present private medical care expenditures do, however, include certain items—such as extra charges for private (instead of semiprivate) hospital accommodations, nonprescribed drugs, and medical supplies for home medicine chests—that are not now covered to any extent and some of which are unlikely ever to be covered to any large extent under any type of health insurance program. The percent of expenditure covered by insurance would be little different from that shown in table 9, were these items omitted from the computation.