Trends in Employee-Benefit Plans, 1954-59: Part 1

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The Social Security Administration has presented periodic reviews, starting with data for 1954, of major developments in employee-benefit plans that have been sponsored and underwritten by private organizations to meet the contingencies of old age, death, accident, disability, unemployment, and the costs of medical care. This year the review is in two parts. The first, which appears below, continues the annual statistical series on coverage, contributions, and benefits under these plans and discusses the trends in the type and scope of benefits provided under health insurance plans. The second part, which will appear in the May Bulletin, examines the trends in benefits under welfare plans and retirement plans.

A REVIEW of developments among employee-benefit plans from 1954 through 1959 reveals the following major trends:

1. All major types of plans have increased their coverage and the amounts for contributions and benefits.

2. Growth in coverage has kept ahead of the growth in the labor force for every major type of employee benefit, but the rate of growth has been declining for such benefits as hospitalization and temporary disability insurance.

3. Contributions as a percentage of aggregate wages and salaries have increased for every major type of employee benefit, but some slackening in the rate of increase has been noted for plans providing temporary disability benefits and surgical and regular medical expense insurance.

4. New kinds of employee benefits have been introduced and experimented with. Some—for example, supplemental unemployment benefits, variable-annuity plans, and group long-term disability insurance—have made relatively slow gains, and others, such as comprehensive major medical insurance, severance pay, and dental care plans, have grown rapidly.

5. Life insurance has supplanted hospital insurance as the most common type of protection provided employees through their place of employment, but health insurance plans continue to account for an ever-increasing portion of the contribution and benefit dollar.

6. The spread of health insurance coverage has been featured by the addition of benefits for dependents of covered employees and the extension of surgical, regular medical, and major medical expense insurance to employees and dependents having hospitalization insurance.

7. Cash benefits allowed individuals under health insurance and temporary disability insurance plans have shown a steady increase, reflecting mainly efforts to keep up with rising medical care costs and wage rates but also efforts to improve the adequacy of benefits.

8. The increased scope of protection provided under health plans has been concentrated on provisions for extending the duration of benefits for hospital stays, for extending regular medical benefits to include coverage for physicians' services in the home and office as well as in the hospital, and for meeting the costs of catastrophic illnesses and injuries.

9. There has been a trend toward making advance arrangements for the continuance of health insurance protection after retirement. Under collective-bargaining agreements, the increase in the proportion of covered employees having their health benefits continued after retirement has averaged from one to two percentage points a year.

10. Insurance plans providing temporary disability benefits under collective bargaining have shown some tendency to pay graduated benefits rather than flat benefits and to extend the dura-

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tion of benefits beyond 13 weeks. Increased supplementation of workmen's compensation payments and use of paid sick-leave plans to supplement benefits paid by group insurance have featured the development of wage-loss protection against sickness.

11. The average face value of group life insurance certificates has tended to increase at a faster pace than annual earnings; the trend toward extending coverage to retired workers and the dependents of those workers who are still employed has continued.

12. A shift in the method of funding, from insured plans to "trusteed" plans, continues to prevail among private pension plans. Among insured plans, deposit administration plans have grown more rapidly than group annuity contracts and individual annuity policies.

13. Provisions for early retirement and disability retirement have been growing in importance, with a significant increase in the number of plans permitting early retirement solely at the employee's option.

14. In computing retirement benefits, the trend has been in the direction of substituting "final average pay" formulas for "career average pay" formulas, increasing the flat dollar amount or percentage of compensation credited for each year of service, eliminating or reducing the old-age, survivors, and disability insurance "offset," and adopting minimum benefit formulas. Under collectively bargained plans, retirement benefit formulas based solely on length of service have grown at the expense of formulas that provide flat amounts or gear benefits to both earnings and length of employment.

15. The level of prospective retirement benefits has steadily increased in relation to preretirement earnings—the result in no small part of liberalizations enacted in the old-age, survivors, and disability insurance program.

16. The trend has continued toward giving an employee a vested right to retain accumulated pension credits even though he may leave his job before normal retirement age. The union-negotiated plans in the mass-production industries are the latest to adopt such provisions.

17. Employers, now financing 85 percent of the costs of private pension plans, have been assuming an ever-increasing share of the cost of health and welfare plans.

TABLE 1.—Estimated number of wage and salary workers and their dependents covered under employee-benefit plans,[1] by type of benefit, December 31, 1954 and 1956–59

[In millions]

Type of benefit	1954	1956	1957	1958	1959
	Total				
All wage and salary workers:					
Life insurance and death benefits [2]	30.9	37.8	40.5	41.8	44.8
Accidental death and dismemberment [3]	14.0	17.3	18.4	18.7	19.7
Hospitalization [4 5]	75.3	89.0	93.9	95.0	98.1
Written in compliance with law	*1.4*	*1.5*	*1.6*	*1.5*	*1.5*
Surgical [4]	66.2	82.0	87.8	89.5	93.5
Regular medical [4]	38.1	54.6	60.7	63.6	69.7
Major medical expense [4 6]	1.9	8.3	12.4	16.2	20.3
Wage and salary workers in private industry:					
Temporary disability [7]	22.9	25.2	25.8	24.9	25.3
Written in compliance with law	*6.7*	*7.1*	*7.2*	*6.9*	*6.9*
Supplemental unemployment benefits [8]	------	2.0	1.9	1.7	1.9
Retirement [9]	14.2	16.8	18.2	19.0	20.2
	Employees				
All wage and salary workers:					
Life insurance and death benefits	29.8	35.5	37.8	39.0	41.8
Accidental death and dismemberment	14.0	17.3	18.4	18.7	19.7
Hospitalization	31.1	35.6	37.1	37.2	38.3
Written in compliance with law	*1.4*	*1.5*	*1.6*	*1.5*	*1.5*
Surgical	27.8	33.2	35.0	35.2	36.7
Regular medical	17.0	22.7	24.9	25.7	28.1
Major medical expense	.8	3.6	5.1	6.3	7.8
Wage and salary workers in private industry:					
Temporary disability	22.9	25.2	25.8	24.9	25.3
Written in compliance with law	*6.7*	*7.1*	*7.2*	*6.9*	*6.9*
Supplemental unemployment benefits	------	2.0	1.9	1.7	1.9
Retirement	14.2	16.8	18.2	19.0	20.2
	Dependents [10]				
All wage and salary workers:					
Life insurance and death benefits	1.1	2.3	2.7	2.8	3.0
Hospitalization	44.2	53.4	56.8	57.8	59.8
Surgical	38.4	48.8	52.8	54.3	56.8
Regular medical	21.1	31.9	35.8	37.9	41.6
Major medical expense	1.1	4.7	7.3	9.9	12.5

[1] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[2] Group and wholesale life insurance coverage (Institute of Life Insurance, *Group Insurance Coverages in the United States*, 1954, 1956–59) and self-insured death benefit plan coverage (based on data for various trade-union, mutual benefit association, and company-administered plans).

[3] Data from the Institute of Life Insurance (see footnote 2).

[4] Data from *Extent of Voluntary Health Insurance Coverage in the United States* (Health Insurance Council, 1954 and 1956–59) and from the Institute of Life Insurance (see footnote 2). In estimating number of employees covered under plans other than group insurance and union and company plans, 75 percent of all subscribers assumed to be employees. Data for hospitalization, surgical, and regular medical coverage include employees and their dependents covered by group major medical expense insurance under both supplementary and comprehensive plans.

[5] Includes private hospital plans written in compliance with State temporary disability insurance law in California, shown separately in the next line.

[6] Represents coverage under group supplementary and comprehensive major medical insurance underwritten by commercial insurance companies. Comprehensive insurance, which includes both basic hospital-surgical-medical benefits and major medical expense protection in the same contract, covered 2,431,000 employees and 4,022,000 dependents in 1959.

[7] Includes formal sick-leave plans; also includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line. Data from the Health Insurance Council (see footnote 4).

[8] Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds.

[9] Estimated by the Division of the Actuary, Social Security Administration. Includes pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing the Federal railroad retirement program. Data exclude annuitants.

[10] Dependents' benefits not shown for accidental death and dismemberment, temporary disability, supplemental unemployment benefits, and retirement plans.

1959 EXPERIENCE

Recovering from the 1958 recession, most types of employee-benefit plans showed an accelerated growth in 1959 but failed for the most part to equal the rates of increase attained in the prerecession year 1957. This pattern of growth is especially reflected in the data on coverage and contributions. Less affected by the business cycle were benefit outlays, which for most plans showed somewhat steady, although declining, rates of increase for 1957, 1958, and 1959.

Coverage

Life insurance, which surpassed hospitalization insurance as the most common form of employee protection in 1957, continued to hold its lead in 1959, when it covered about 42 million employees (table 1). When dependents' coverage is also considered, however, more than twice as many persons were protected by hospitalization insurance (98 million by the end of 1959) as by life insurance (45 million). The number of employees and their dependents covered by surgical expense insurance (93 million) and by regular medical expense insurance (70 million) also exceeded the number having life insurance under employee-benefit plans in 1959.

For every type of employee-benefit plan, coverage was higher in 1959 than in 1958 and the annual increase in the number of employees and dependents covered for 1959 equaled or exceeded the increase of the preceding year. The 1959 increases for the most part, however, failed to match those of the prerecession year 1957.

Hospitalization insurance, for example, added only 1.1 million employees to its rolls in 1959, compared with 1.5 million in 1957; surgical insurance added 1.5 million in 1959 but 1.8 million in 1957. The number of employees in retirement plans increased by 1.2 million in 1959 but by 1.4 million in 1957. Life insurance was the only major type of employee benefit that had 1959 advances that exceeded those of 1957, both absolutely and relatively. For temporary disability and supplemental unemployment benefits, the 1959 increase was not sufficient to bring coverage to a level higher than that in 1957.

In general, the same situation has developed with respect to dependents' benefits, although the coverage of dependents has been increasing at a

TABLE 2.—Coverage and contributions under employee-benefit plans,[1] by type of benefit, in relation to employed wage and salary labor force and payroll, 1954 and 1956–59

Year	Life insurance and death	Accidental death and dismemberment	Hospitalization	Surgical	Regular medical	Major medical expense	Temporary disability, including formal sick leave	Supplemental unemployment	Retirement
	Covered employees as percent of all wage and salary workers[2]						Covered employees as percent of wage and salary workers in private industry[3]		
1954	56.2	26.4	58.7	52.5	32.1	1.5	49.9	----------	31.0
1956	62.5	30.4	62.8	58.5	40.0	6.3	51.3	4.1	34.2
1957	66.0	32.2	64.8	61.2	43.5	9.0	52.2	3.6	36.9
1958	69.8	33.4	66.6	63.0	46.1	11.3	52.0	3.6	39.8
1959	72.5	34.1	66.4	63.6	48.7	13.6	51.2	3.8	40.9
	Employer and employee contributions as percent of all wages and salaries[4]						Employer and employee contributions as percent of wages and salaries in private industry[5]		
1954	0.40	0.02	0.66	[6] 0.37	0.01		0.47	----------	2.13
1956	.46	.02	.74	[6] .41	.04		.47	0.07	2.16
1957	.48	.02	.79	[6] .45	.07		.50	.09	2.31
1958	.53	.03	.85	[6] .47	.12		.52	.06	2.38
1959	.58	.03	.90	[6] .48	.14		.50	.06	2.43

[1] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[2] Coverage of private and public employees related to average number of private and government full-time and part-time employees—57.7 million in 1959 (Table VI-14 in *U.S. Income and Output, A Supplement to the Survey of Current Business*, 1958, and in *Survey of Current Business, National Income Number*, July 1960).

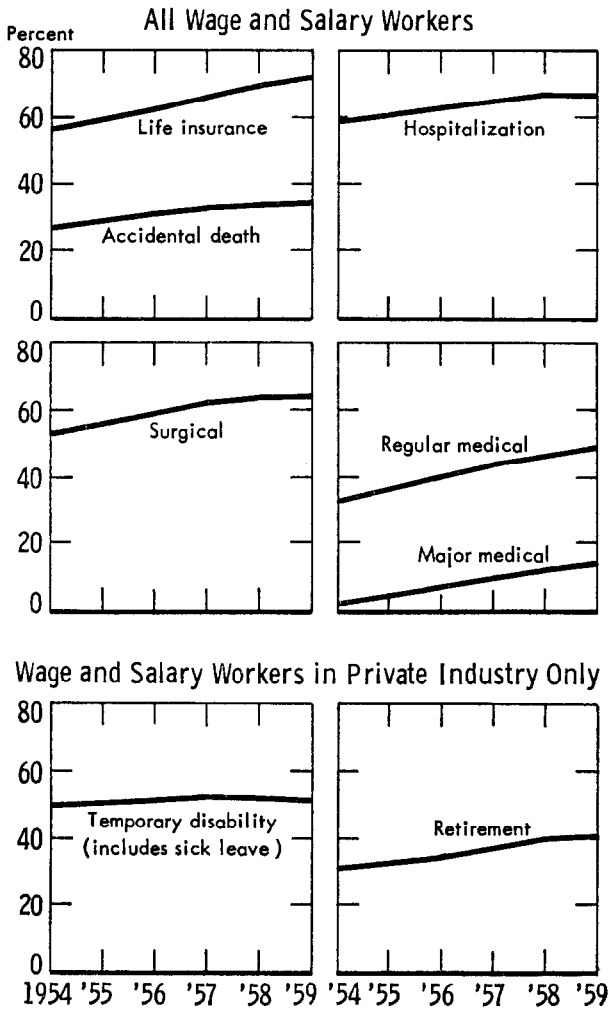
[3] Coverage of private employees related to wage and salary employed labor force in private industry—49.4 million in 1959 (from table VI-14 in sources listed in footnote 2).

[4] Amounts for private and public employees related to private and government wages and salaries—$248.3 billion in 1959 (from table VI-2 in sources listed in footnote 2).

[5] Amounts for private employees related to wages and salaries in private industry—$212.9 billion in 1959 (from table VI-2 in sources listed in footnote 2).

[6] Data on contributions for surgical and regular medical benefits not available separately.

CHART 1.—Workers covered under employee-benefit plans as a percent of employed wage and salary labor force, 1954–59



much faster rate than that of employees. Not one type of employee-benefit plan experienced an increase in its number of covered dependents that exceeded the increase in 1957.

The slackening in the rate of expansion of employee-benefit plans is also apparent when employee coverage is related to the entire wage and salary labor force (table 2 and chart 1).[1] In fact, there was little or no change from 1958 to 1959 in the proportion of the employed labor force covered by plans providing hospital and temporary disability benefits. There had been no relative increase in temporary disability coverage in the preceding year as well, but for hospitalization the leveling-off was unprecedented and may indicate the initiation of a period when the growth in such coverage will no more than keep pace with the growth in the labor force.

Most other employee-benefit plans registered increases in 1959 coverage that exceeded the growth in the employed labor force but did not equal the advances of previous years. Thus, by the end of 1959, life insurance covered 72 percent of the Nation's employed wage and salary labor force—2 percentage points higher than the number covered a year earlier. The increase was less, however, than the percentage increases in each of the preceding 4 years. Surgical expense insurance increased its employee coverage from 63 percent to 64 percent of the Nation's labor force in 1959; again, this increase was the lowest of the period under review. Plans affording regular medical benefits and those providing major medical benefits both reported advances in coverage as a percentage of the labor force. The increases, though matching those of the preceding year, were the lowest of the 4-year period.

For private pension plans, which covered 41 percent of the wage and salary labor force in private industry in 1959 and 40 percent in 1958, the increase was a far cry from the 3 percentage points gained in 1957 and in 1956.

The year 1959 saw continuation of the trend toward providing more complete medical care protection to persons who have basic hospital expense insurance. In 1954, 3.3 million more employees and 5.8 million more dependents had hospitalization insurance than surgical expense insurance; by 1959 this gap had narrowed to 1.6 million employees and 3.0 million dependents.

The rapid growth of regular medical and major medical expense insurance is another indication of this trend toward broadening the base of health insurance protection. From 1954 to 1959, plans providing regular medical benefits added 11.1 million employee participants. This was the greatest numerical growth for any type of employee benefit except life insurance. Dependents' coverage under regular medical expense insurance

[1] The proportion of wage and salary workers having various kinds of group health insurance may be somewhat understated to the extent that working wives choose coverage through their husband's group plan rather than their own. Under the Federal Employees Health Benefits Act, for example, about 2.5 percent of the eligible employees did not enroll because they were covered under a plan sponsored by the employer of a spouse or parent.

gained 20.5 million—the greatest increase in any plan.

Major medical expense coverage, though not matching in number the growth of regular medical expense coverage, showed the largest percentage gain of all types of employee plans. At the end of 1959, major medical expense insurance covered almost 10 times as many employees as in 1954 and 11 times as many dependents. The rate of expansion is not surprising in view of the recent development of this type of plan.

Contributions

As in preceding years, private pension plans in 1959 were responsible for the largest single share of employer and employee contributions to employee-benefit plans (table 3). Of the estimated total of $11.7 billion contributed to all benefit plans in 1959, $5.2 billion or 44 percent was used to finance retirement benefits. Next in order of magnitude were premiums for hospitalization (19 percent), life insurance (12 percent), and surgical and regular medical insurance (10 percent). Temporary disability insurance, which in 1956 had slipped behind life insurance and surgical and regular medical expense insurance for the first time, continued to trail in 1959, with contributions amounting to 9 percent of the total.

Combined employer-employee contributions rose 11.2 percent in 1959, more than twice the increase of the preceding year but less than that of the prerecession year 1957, when contributions rose 13.1 percent. For two of the programs—life insurance and hospitalization—the increases were greater in 1959 than in 1957. These greater-than-average rates of growth may be partly attributed, in the case of life insurance, to the increasing number of employees and dependents covered and, in the case of hospitalization insurance, to the costs of hospital services, which are rising steadily and at a faster rate than the costs for any other category of medical care.

All plans except major medical expense insurance and supplemental unemployment benefits reported greater dollar increases in contributions in 1959 than in 1958. The increases were particularly significant in the area of life insurance, hospital care, and retirement protection, where contributions continued to rise at a faster pace than wages and salaries.

Table 2 shows that retirement contributions advanced 5 cents per $100 of wages and salaries in private industry (from $2.38 in 1958 to $2.43 in 1959) and that life insurance and hospitalization plans each reported 1959 advances of 5 cents per $100 of aggregate wages and salaries. These

TABLE 3.—Estimated total employer and employee contributions [1] under employee-benefit plans,[2] by type of benefit, 1954 and 1956–59

[In millions]

Type of benefit	1954	1956	1957	1958	1959
Total	$6,898.7	$8,752.8	$9,901.4	$10,389.3	$11,651.8
Benefits for all wage and salary workers:					
Life insurance and death benefits [3]	741.1	994.6	1,103.6	1,214.4	1,436.4
Accidental death and dismemberment [4]	33.5	49.7	56.5	60.9	66.0
Hospitalization [5 6]	1,221.4	1,603.2	1,805.5	1,944.9	2,230.3
Surgical and regular medical [5]	684.2	897.5	1,021.3	1,075.5	1,186.9
Major medical expense [7]	18.0	94.0	169.0	266.0	357.0
Benefits for wage and salary workers in private industry:					
Temporary disability, including formal sick leave [8]	760.5	888.8	995.5	1,022.6	1,070.2
Written in compliance with law	*178.1*	*177.8*	*218.8*	*234.4*	*236.6*
Supplemental unemployment benefits [9]	----	125.0	170.0	125.0	125.0
Retirement [10]	3,440.0	4,100.0	4,580.0	4,680.0	5,180.0

[1] Excludes dividends in group insurance, except for 1954 contributions for temporary disability, hospitalization, surgical and regular medical, and major medical expense benefits.

[2] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[3] Group and wholesale life insurance premiums (Institute of Life Insurance, *Group Insurance Coverages in the United States*, 1954 and 1956–59) and self-insured death benefit costs (based on data for various trade-union, mutual benefit association, and company-administered plans).

[4] Data from Institute of Life Insurance (see footnote 3).

[5] Data from "Voluntary Health Insurance and Private Medical Care Expenditures, 1948–59," *Social Security Bulletin*, December 1960. In estimating contributions for employees under plans other than group insurance and union and company plans, 75 percent of subscription income attributed to employed groups.

[6] Includes private hospital plans written in compliance with State temporary disability insurance law in California; separate data not available for these plans.

[7] Unpublished data from the Health Insurance Association of America. Represents premiums for group supplementary and comprehensive major medical insurance underwritten by commercial insurance carriers.

[8] Data from "Income-Loss Protection Against Short-Term Sickness: 1948–59," *Social Security Bulletin*, January 1961. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line.

[9] Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds. For the steel industry plans, includes accruals of contingent liability contributions as well as regular contributions.

[10] Estimated by the Division of the Actuary, Social Security Administration. Includes contributions to pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing Federal railroad retirement program.

gains, however, did not exceed those of the preceding year.

Other plans also experienced a slackening in the annual rate of increase. The 1-cent rise in surgical and regular medical expense insurance contributions as a percentage of payroll in 1959 and the 2-cent rise in major medical insurance contributions were only half the increases of the preceding year. Contributions to plans providing temporary disability benefits, while showing a small dollar rise from 1958 to 1959, actually dropped in terms of payroll (from 52 cents per $100 of private wages and salaries to 50 cents per $100).

National data on the distribution of contribution costs between employers and employees are lacking for the different types of employee benefits, except retirement protection. The Office of Business Economics, Department of Commerce, makes estimates of the amount contributed by employers to private pension and welfare funds; in 1959 the amount was $7.9 billion. If from this amount is subtracted the estimated amount contributed by employers to pension plans—$4.4 billion—the remainder of $3.5 billion will represent their contributions to health and welfare plans. Subtracting the $3.5 billion from the total employer-employee contributions for health and welfare benefits (after excluding sick-leave costs, which are not included in the Department of Commerce estimates) leaves an estimate of employee contributions to health and welfare plans in 1959 of $2.6 billion. The breakdown is shown below.

[In billions]

Type of plan	Total contributions	Employer contributions	Employee contributions
All plans	$11.3	$7.9	$3.4
Pension plans	5.2	4.4	.8
Health and welfare plans	6.1	3.5	2.6

According to these estimates, employers assumed 57 percent of the cost of health and welfare benefits in 1959 (70 percent if pension costs are included). These proportions may be compared with a Senate subcommittee estimate for 1954 that employers bore 45 percent of the cost of health and welfare plans, excluding sick leave (an estimated 66 percent when pension costs are added).[2]

Benefits

Of the estimated total of $7.0 billion expended under employee-benefit plans in 1959, hospitalization benefits of $2.1 billion accounted for the largest share, with retirement benefits of $1.5 billion next (table 4). It is not surprising that this relationship is the reverse of that found with respect to contributions. Long-term retirement plans, most of which are of recent origin and not yet matured, have a substantially greater income than outgo in their early years because of the necessity of building up reserves for future benefits and of amortizing the cost of past service credits. Hospital and medical care plans, in contrast, need only small contingency reserves for short-term benefits and expend much more of their current income for benefits.

Primarily because of the sharp growth of major medical insurance, health insurance plans have been consuming an ever-increasing portion of the benefit dollar. The major medical programs, which accounted for less than 1 percent of benefits in 1954, took 5 percent by 1959 (chart 2). Other health plans, while steadily increasing their dollar expenditures, have no more than maintained their relative shares of the total. The other program that increased its portion of the benefit dollar was retirement insurance, which absorbed 22 percent of all disbursements in 1959 and 20 percent in 1954.

Life insurance benefits, which exceeded temporary disability benefits for the first time in 1959, were responsible for 14 percent of the total outlay in 1959, compared with 15 percent in 1954. Showing the greatest relative drop in payments were temporary disability benefits, which in 1954 accounted for 18 percent of the total and in 1959 for only 13 percent.

Benefit expenditures appear to be less influenced than contributions and coverage by the business cycle. Disbursements under all types of

[2] U.S. Senate, Committee on Labor and Public Welfare, *Welfare and Pension Plans Investigation: Final Report . . . Submitted by Its Subcommittee on Welfare and Pension Funds* (S. Rept. 1734, 84th Cong., 2d sess., 1956), page 84.

employee-benefit plans increased by about the same amount —$700 million—in each of the years 1958 and 1959, with a slightly greater increase ($770 million) in 1957.

It is not to be expected that benefit expenditures will be unduly influenced by short-term changes in business conditions, since in many cases they represent the fulfillment of earlier obligations. Thus, retirement plans reported a constant increase in disbursements during the 3 years (ranging from 13 percent to 17 percent). All types of health benefits combined have also increased at a fairly steady pace, though the 1958 rate of increase (12 percent) was less than that of 1957 (17 percent) and 1959 (13 percent). The rapid growth of major medical expense insurance, which so far shows little inclination to be affected by the business cycle, and the rising costs of medical care have apparently offset any effect that a declining rate of increase in enrollment for basic hospital-surgical-medical insurance might have on benefit expenditures.

A recession is more likely to affect disbursements under temporary disability insurance and paid sick-leave plans than under health plans because of the closer association between eligibility for benefits and current employment status. Thus, from 1956 to 1957, benefits for temporary disability increased 9 percent, practically leveled off in 1958, and registered a 6-percent increase with the 1959 recovery.

As may be expected, supplemental unemployment benefits are affected the most by business conditions. During the recession year 1958, benefits rose sharply to an estimated $145 million. With the recovery of 1959, they dropped back to an estimated $65 million. In 1957, benefits amounted to $20 million, but not all the plans were fully in effect for that year.

HEALTH PLAN CHARACTERISTICS

Health employee-benefit plans are designed to help workers and their dependents meet in part the cost of hospital services, physicians' charges for surgery and nonsurgical care in and out of the hospital, drugs, nursing care, and other medical care items. Historically, separate plans were developed to provide these benefits—hospital expense insurance, surgical expense insurance, regular medical expense insurance, and major medical expense insurance. In this article, the presentation of data on health plans follows this traditional classification.[3]

A relatively recent development has been the comprehensive type of major medical expense insurance, which eliminates the basic hospital-surgical-medical plans by combining in one contract the basic protection with the major medical protection. Many of the plans adopted under the Federal Employees Health Benefits Act exemplify this type of packaging. In the coverage data presented in this article, workers with comprehensive major medical insurance are counted as also having basic hospital, surgical, and regular medical expense protection. Benefits and contributions under comprehensive insurance, however, are included in the data for "major medical expense" rather than distributed among the other categories of health plans.

Hospital Benefits

Hospital benefits may take the form of cash indemnity benefits or service benefits, or a combination of the two. Under plans providing for cash indemnity benefits, workers are reimbursed for the cost of (1) room and board up to a fixed amount per day for a specified period and (2) ancillary or "extra" services, limited to an amount that is usually related to the maximum amount of the daily benefit. Under plans providing for service benefits, the hospitals are compensated directly by the plan for the full costs of specified room-and-board accommodations and extra services for specified periods. The combination plans generally pay a cash allowance for room and board and provide specified hospital extras on a service basis.

Half the employees having hospital protection through their job in 1959 were insured through group insurance contracts issued by commercial insurance carriers. Generally, these contracts

[3] The data on major medical expense insurance refer exclusively to the coverage provided by commercial insurance carriers. Comparable coverage provided by Blue Cross-Blue Shield and prepayment group-practice plans are included in the tables under the hospital, surgical, and regular medical expense data.

provide for cash indemnity benefits. Forty-four percent of the employees were covered by group contracts issued by nonprofit Blue Cross plans and certain Blue Shield plans. These plans generally provide service benefits. The remaining 6 percent of the employees with hospital expense protection were subscribers to or members of "independent" prepayment plans, which usually make their own direct arrangements with hospitals or actually operate their own hospitals.

This distribution by type of organization underwriting hospital insurance has changed somewhat since 1954, when commercial carriers were responsible for 46 percent of the coverage, Blue Cross-Blue Shield plans for 47 percent, and the independent plans for 7 percent.

Some indication of the trend in the scope and nature of hospital benefits may be observed from continuing studies made by the Bureau of Labor Statistics of 300 health and insurance plans under collective bargaining. Of the 300 plans in effect as of late 1955 and early 1959, 271 were common to both studies.[4] Each of the plans covered at least 1,000 workers; in total, they provided benefit coverage to almost 5 million workers. Virtually every major industry was represented in the sample. It is estimated that almost two-fifths of the workers having hospitalization insurance are in plans that have been brought within the scope of collective-bargaining agreements.

During the period studied, the major changes noted were provisions for longer hospital stays, increases in cash allowances, and extension of benefits to dependents and future retired workers.

In 1955 under cash indemnity plans, the maximum number of full-benefit days most frequently provided, in terms of number of employees covered, was 31; by 1959 it had increased to 70 days. Under the service plans the most frequent duration for both years was 120 days, with the proportion of employees having this amount of protection rising from two-thirds to three-fourths.

Under cash indemnity plans, the average daily room-and-board allowance for employees increased from $11.12 in 1955 to $13.18 in 1959. As a result of the increases in both the daily allowances and in the number of days during which benefits are payable, the average maximum allowance available per hospital stay under cash plans increased from $781 to $1,000.

Less noticeable were the changes in benefits provided for such ancillary or "extra" hospital services as the use of the operating room, surgical dressings, antibiotics, and various laboratory services. Under plans providing cash allow-

[4] Bureau of Labor Statistics, *Health and Insurance Plans Under Collective Bargaining: Hospital Benefits, Early 1959* (Bulletin No. 1274), 1960, and *Analysis of Health and Insurance Plans Under Collective Bargaining, Late 1955* (Bulletin No. 1221), 1957.

TABLE 4.—Estimated benefits paid under employee-benefit plans,[1] by type of benefit, 1954 and 1956–59

[In millions]

Type of benefit	1954	1956	1957	1958	1959
Total	$3,527.5	$4,826.0	$5,595.9	$6,290.2	$6,966.8
Benefits for all wage and salary workers:					
Life insurance and death benefits [2]	515.6	662.8	798.2	875.3	947.6
Accidental death and dismemberment [3]	25.1	30.5	36.7	42.3	43.0
Hospitalization [4] [5]	1,079.9	1,495.4	1,714.1	1,892.7	2,107.6
Written in compliance with law	*5.1*	*6.5*	*6.8*	*8.5*	*8.9*
Surgical and regular medical [4]	552.6	757.9	876.9	929.1	1,024.2
Major medical expense [6]	10.0	67.0	131.0	233.0	332.0
Benefits for wage and salary workers in private industry:					
Temporary disability, including formal sick leave [7]	624.3	797.4	869.0	872.8	927.4
Written in compliance with law	*132.0*	*151.2*	*178.1*	*183.7*	*190.5*
Supplemental unemployment benefits [8]	----------	5.0	20.0	145.0	65.0
Retirement [9]	720.0	1,010.0	1,150.0	1,300.0	1,520.0

[1] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[2] Group and wholesale insurance benefits (Institute of Life Insurance, *Life Insurance Fact Book*, 1960, and estimates made by the Social Security Administration) and self-insured death benefits (based on data for various trade-union, mutual benefit association, and company-administered plans).

[3] Unpublished data from the Institute of Life Insurance.

[4] Data from "Voluntary Health Insurance and Private Medical Care Expenditures, 1948–59," *Social Security Bulletin*, December 1960. In estimating benefits paid to employees under plans other than group insurance and union and company plans, 75 percent of benefit expenditures attributed to employed groups.

[5] Includes private hospital plans written in compliance with State temporary disability insurance law in California, shown separately in next line.

[6] Unpublished data from the Health Insurance Association of America. Represents benefits paid under group supplementary and comprehensive major medical insurance underwritten by commercial insurance carriers.

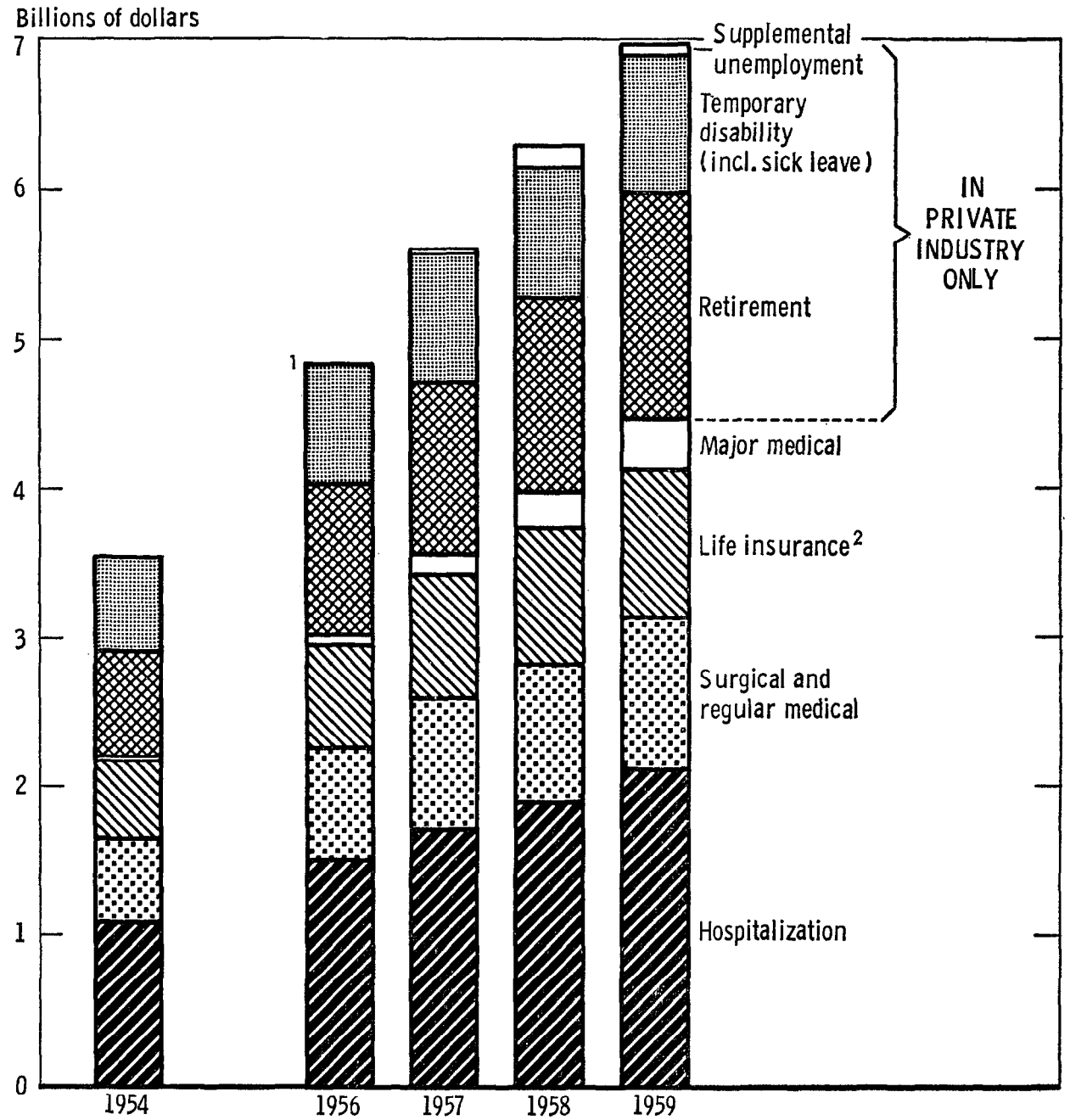
[7] Data from "Income-Loss Protection Against Short-Term Sickness: 1948–59," *Social Security Bulletin*, January 1961. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line.

[8] Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed from supplemental unemployment benefit funds.

[9] Estimated by the Division of the Actuary, Social Security Administration. Includes benefits paid under pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing Federal railroad retirement program.

ances, about nine-tenths of the employees in both the 1955 and 1959 studies received full reimbursement for hospital extras up to a fixed maximum; two-fifths of this group received additional reimbursement on a percentage basis after the fully reimbursable amount had been exhausted. The average fully reimbursable maximum specified in 1959 was $300—$13 more than in 1955. Under plans providing a service benefit, slightly more than four-fifths of the employees in both years were entitled to specified extras for the entire benefit period; the others were under plans that

CHART 2.—Estimated benefits paid under employee-benefit plans, by type of benefit, 1954 and 1956–59



[1] Supplemental unemployment benefits of $5 million paid in 1956.

[2] Includes accidental death and dismemberment benefits.

paid the full cost of specified services for part of the benefit period and partial reimbursement (usually 50 percent) for the remainder.

A standard feature of hospital plans in both studies was hospital benefits for dependents of employees. The proportion of employees having such additional protection rose from 86 percent in 1955 to 96 percent in 1959. Most of these plans provided employees and their dependents with the same level of benefits. Where some variation existed, usually under cash indemnity plans, the benefits allowed dependents were for a smaller amount and for shorter duration. In keeping with the trend for employees, however, the average amount of daily room-and-board allowance for dependents increased, from $10.31 in 1955 to $12.79 in 1959. The average maximum allowance available per hospital stay also rose during this period—from $673 to $912.

Surgical and Regular Medical Benefits

Surgical and regular medical expense [5] benefits may be provided on a cash indemnity basis, on a service basis, or on a combined service-cash indemnity basis. Under a cash indemnity plan, the employee is reimbursed for the cost of operations in accordance with a fee schedule for surgical procedures. For regular medical expense he is allowed a specified amount for each physician's visit at the home, office, or hospital; the allowance is sometimes limited to a fixed amount per day, to a stated number of visits, or to a maximum dollar amount. These amounts do not necessarily cover charges in full, and the employee is responsible for the difference.

Under a service plan, the employee is covered for the full cost of specified services rendered by physicians and surgeons, who are paid directly by the plan. Under the combined service-cash indemnity plan (sometimes called a service plan with an income limitation), employees whose annual income is less than a specified amount (most commonly $4,000–$7,500 for family coverage) receive service benefits—that is, the participating physicians and surgeons agree to accept the amount of reimbursement shown in the fee schedule as payment in full for services. Workers whose income is more than the specified amount must pay any difference between the amount provided by the plan and the surgeon's or physician's charges.

Cash indemnity benefits are generally furnished by commercial carriers. Fifty-three percent of all employees with surgical expense protection and 45 percent of those with regular medical expense protection were covered in 1959 through group insurance contracts purchased from such carriers. The Blue Shield plans and a number of Blue Cross plans covered 40 percent of the employees who had surgical expense protection and 46 percent of those who had regular medical expense protection. The Blue Shield plans generally provide surgical and regular medical expense insurance on a service-cash indemnity basis.

The remaining employees—7 percent for surgical benefits and 9 percent for regular medical benefits—were covered by "independent" prepayment plans, many of which are group-practice plans. These plans tend to provide a broad range of surgeons' and physicians' services both in and out of the hospital on a service basis.

The distribution by type of underwriting organization has remained relatively constant, except that the coverage provided by independent plans, though increasing in absolute number, has declined percentagewise. In 1954, such coverage accounted for 8 percent of the surgical benefits and 11 percent of the regular medical benefits.

The BLS continuing study of 300 collectively bargained plans gives some information on trends in the type and level of surgical and regular medical benefits provided as of late summer 1959 [6] and late 1955. Collectively bargained plans cover perhaps two-fifths of all employees having surgical and regular medical expense protection through their place of employment.

The studies show that there has been a slight move in the direction of extending regular medi-

[5] The term "regular medical expense" refers to medical expense, other than the cost of hospital care and surgery, that does not come under the category of "major medical expense." Regular medical benefits invariably include protection against the cost of physicians' visits in a hospital and in many cases coverage for visits at home or at the physician's office.

[6] Bureau of Labor Statistics, *Health and Insurance Plans under Collective Bargaining: Surgical and Medical Benefits, Late Summer 1959* (Bulletin No. 1280), 1960.

cal benefits to treatment outside the hospital (out-of-hospital care). In 1955, 46 percent of the employees with regular medical expense coverage for physicians' visits in the hospital (in-hospital care) also had protection for physicians' visits at home or in the office, and by 1959 the proportion had risen to 49 percent.

Under both surgical and regular medical expense plans there have been constant increases in cash allowances, reflecting for the most part the rise in medical care costs. The maximum schedule allowance provided for the most expensive operation under the cash indemnity and service-cash indemnity plans averaged $307 for employees in late summer 1959, compared with $263 in late 1955. For two of the more common surgical procedures—an appendectomy and a tonsillectomy—the average allowances for employees in 1959 were $144 and $50; in 1955, the averages were $128 and $43. The averages under the service-cash indemnity plans were slightly higher than under the cash indemnity plans.

The proportion of employees covered by cash indemnity and service-cash indemnity plans that allowed $4 or more for a physician's hospital visit rose from 68 percent in 1955 to 75 percent in 1959. The increase in plans making the same allowance for office visits was from 55 percent to 58 percent. In the case of home visits, which are generally reimbursed at a higher level than either hospital or office visits, the proportion of employees under plans that paid $5 or more rose from 71 percent in 1955 to 83 percent in 1959.

The maximum amount payable to employees covered by cash indemnity and service-cash indemnity plans for physicians' visits during a single disability or a specified period averaged $517 in 1959 and $459 in 1955. Relatively more employees in 1959 than in 1955 were under plans that applied these maximums to each disability rather than to all visits during a 6- or 12-month period.

Surgical and regular medical expense plans under collective bargaining, like hospital expense plans, have continued to extend their benefits to dependents of active workers and to future retired workers, according to the Bureau of Labor Statistics. Thus, in the Bureau's 1959 study, 97 percent of the employees having surgical protection and 92 percent of those with regular medical protection were under plans that extended such benefits to dependents. In the 1955 study, the percentages were 84 and 75, respectively.

In both years most workers and their dependents received identical surgical and regular medical benefits. Where variation existed, dependents generally received smaller cash allowances or had their regular medical benefits restricted to in-hospital care. Nevertheless, the amounts allowed dependents for surgical procedures and physicians' visits have been on the rise, like those allowed employees.

Major Medical Benefits

Major medical expense insurance, one of the newest forms to be developed by private insurance companies, helps pay the especially heavy costs of catastrophic or prolonged illness—in and out of the hospital and including such items as private-duty nursing care, drugs and medications, medical appliances, and X-rays.[7] These plans use a "co-insurance" feature, whereby the insured person, after paying an initial "deductible" amount of $25–$500, pays a fixed percentage (usually 20–25 percent) of all specified medical care expenses. The insurance covers the rest up to a maximum dollar amount—commonly $5,000–$10,000.

Two types of group major medical insurance are found—supplemental and comprehensive. The former is designed to supplement the existing basic hospital-surgical-medical insurance, paying out benefits only after benefits under the basic plan are exhausted and a specified "corridor" deductible amount has been paid by the insured. The comprehensive type of major medical insurance combines both the basic and the major medical protection in the same package and applies the deductible and co-insurance principles to "basic" as well as "major" medical expenses.

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[7] Some Blue Cross-Blue Shield plans also offer major medical expense coverage, often under the name "extended benefits." Most prepayment group-practice plans also provide "comprehensive care" that includes most of the types of expenses covered by major medical insurance contracts. Because separate data on extended benefits and comprehensive care under these plans are not available, the data on major medical expense insurance in the tables are confined to the coverage provided by commercial insurance companies.

According to the Institute of Life Insurance,[8] the supplemental type plans still cover most of the employees who have group major medical insurance—69 percent at the end of 1959. The comprehensive plans, however, have been increasing at a faster rate than the supplementary plans; in 1954 they covered only 3 percent of the total number insured under major medical policies. This trend is further reflected in the fact that, for each year since 1956, more new contracts have been issued for comprehensive coverage than for the supplemental type of coverage.

Coverage After Retirement and During Lay-Off

Historically, coverage under health insurance plans has usually been dependent upon a worker's remaining on the active payroll. Under Blue Cross-Blue Shield plans the individual, upon leaving his job, could convert to individual insurance within specified periods, but often at higher rates that he had to pay entirely by himself. Commercial insurance companies lately have begun to offer similar conversion privileges.

A recent development has been the practice of continuing coverage of the retired worker as a member of the existing group. According to the Bureau of Labor Statistics, there was a significant increase—almost a doubling—from 1955 to 1959 in the number of collectively bargained plans that provided active employees with hospital, surgical, and regular medical benefits after retirement.

In terms of employees, however, the gains have been less pronounced. The proportion of employees who would have their hospital protection continued after retirement rose from 36 percent in the 1955 BLS study to 42 percent in the 1959 study; for surgical benefits, the advance was from 35 percent to 41 percent, and for regular medical benefits, it was from 40 percent to 44 percent—an average gain of 1–2 percentage points a year.

To offset the higher costs of providing elderly persons with health benefits, plans may reduce benefits by various methods. They may, for example, convert the maximum allowances to a lifetime limit after retirement or restrict the type of services provided or the amounts allowed for specified services. Of those employees who were under plans that extended hospital benefits to retired workers, about 1 out of 4 in the 1959 study would have their benefits curtailed after retirement; for surgical and regular medical benefits, the proportion was about 1 in 5.

The financing may also be different for retired workers and for active workers. In the 1959 study, four-fifths of the employees (under collectively bargained plans that extended health benefits to retired workers) whose preretirement benefits were jointly financed would have their method of financing benefits changed after retirement. In 3 out of 4 cases the worker, once he retired, would have to bear the entire cost of his coverage. When the preretirement benefits were paid for solely by the employer, however, only one-tenth of the employees were required to make some financial contribution toward coverage after retirement.

The present relatively high level of unemployment in the country also raises concern over the extent to which arrangements have been made for continuing health coverage of the employee when he is laid off temporarily. The BLS study of health insurance plans under collective bargaining found in 1959 that about half the plans terminated coverage immediately or by the first of the month following the date of separation when active employment ceased because of lay-off. Of the plans that specifically provided for continuing coverage for more than a month, about one-third extended coverage for more than 6 months but usually required the employee to bear the entire cost.

TECHNICAL NOTE

"Employee-benefit plan" is defined in this article as any type of plan sponsored or initiated unilaterally or jointly by employers and employees and providing benefits that stem from the employment relationship and that are not underwritten or paid directly by government (Federal, State, and local). In general, the intent is to include plans that provide in an orderly, predetermined fashion for (1) income maintenance during periods when regular earnings are cut off because of death, accident, sickness, retirement, and unemployment and (2) benefits to meet certain

[8] Institute of Life Insurance, *Group Insurance Coverages in the United States—1959.*

specified expenses usually associated with illness or injury. The series thus excludes such fringe benefits as paid vacations, holidays, and rest periods; leave with pay (except formal sick leave); savings and stock purchase plans; discount privileges; and free meals.

Private plans written in compliance with State temporary disability insurance laws are included in the series, but workmen's compensation and statutory provisions for employer's liability are excluded. Severance-pay provisions are included only to the extent that they are linked with the supplemental unemployment benefit plans.

Estimates of coverage, contributions, and benefits are based for the most part on reports by private insurance companies and other nongovernment agencies. Many of these reports include data for persons who are no longer currently employed as wage and salary workers because of retirement, temporary lay-off, sickness, or shift in jobs. No attempt has been made to adjust the data for any overstatement that might result from the inclusion of such persons. The one exception is the coverage estimates for pension plans, which have been adjusted to eliminate annuitants.