

# Private Consumer Expenditures for Medical Care and Voluntary Health Insurance, 1948-62

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PRIVATE consumer expenditures for medical care amounted to almost \$22 billion in 1962. Approximately \$14 billion, or 66 percent of the total, represented direct payments by consumers; the remaining \$8 billion was in the form of payments for health insurance. The aggregate amount of the increase from 1961 was almost \$1.2 billion or 5.8 percent. Direct payments rose only 2.2 percent, and health insurance payments increased 13.4 percent.

Per capita expenditures for medical care in 1962 amounted to \$119.44. Direct expenditures were \$78.27 per capita, and payments for health insurance were \$41.17.

## DEFINITIONS AND METHODOLOGY

These data on private consumer expenditures for medical care and voluntary health insurance continue the series of annual estimates made by the Division of Research and Statistics and published in the BULLETIN. In the current analysis, changes in the methodology of estimating hospital care expenditures have resulted in revisions in the data for this category of expenditures for several years. Adjustments have been made in the data for the other categories to conform with revisions in source data. No changes have been made in the data on private consumer expenditures for years before 1956. No changes in concepts have been made since last year, and the reader is referred to the December 1962 BULLETIN for a detailed discussion of the definitions and sources of the data.<sup>1</sup>

Comparisons are often made between the data on private consumer expenditures for medical care shown in this series and the data published annu-

ally by the Department of Commerce.<sup>2</sup> Some questions may be raised because of the differences in the two sets of data. The basic difference results from the division by the Department of Commerce of the national accounts into two sectors, public and private. All private consumer expenditures reported by the Department relate only to privately controlled facilities—that is, nongovernment hospitals and nursing homes—and, unlike the Social Security Administration data, do not include private expenditures in Federal, State, city, and other government hospitals and nursing homes. The Department of Commerce data for “privately controlled hospitals and sanitariums” also combine expenditures for hospitals and nursing homes.

Both sets of data on expenditures for physicians' and dentists' services are based on the gross receipts as reported by practitioners in solo and partnership practice on Schedule C of their income-tax returns. There are minor differences in method of estimation, however, as well as differences in definitions between the two sets of data. The Social Security Administration includes under physicians' services the services of osteopathic physicians; the Department of Commerce classifies such services as “other professional services.” Salaries paid to physicians and dentists in consumer-sponsored, group-practice, prepayment plans are included in “physicians' services” by the Social Security Administration and in “medical care and hospitalization insurance” by the Department of Commerce.

Another difference in the two estimates is that the Department of Commerce includes both medical care and disability insurance in its estimate of “medical care and hospitalization insurance,” and the Social Security Administration estimate for “health insurance, net cost” represents the net cost of insurance for health services only.

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<sup>1</sup> Louis S. Reed and Dorothy P. Rice, “Private Medical Care Expenditures and Voluntary Health Insurance, 1948-61,” *Social Security Bulletin*, December 1962.

<sup>2</sup> Department of Commerce, Office of Business Economics, *Survey of Current Business*, National Income Number, July 1963, table 14, page 20.

The Social Security Administration estimate of expenditures for "other professional services" includes consumer expenditures for the services of registered and practical nurses in private duty, visiting nurses, podiatrists, physical therapists, clinical psychologists, chiropractors, naturopaths, and Christian Science practitioners. The estimates are based on the number of practitioners in each field and their estimated gross income. The Department of Commerce series does not include expenditures for the services of practical nurses in private duty but classifies such services as a species of domestic service.

The data on expenditures for drugs and drug sundries and for eyeglasses and appliances are taken without change from the Department of Commerce figures for these categories.

### Methodological Changes

As indicated earlier, the current data on expenditures for hospital care reflect a revision of the estimating procedures used in previous years. Since the start of the series, expenditures for hospital care have been estimated from data re-

ported in the annual Guide Issue of *Hospitals* on the revenue from patients and/or operating expenses of hospitals. For State and local government hospitals, consumer expenditures were based on unpublished data from the American Hospital Association on their patient revenue. Since many government hospitals do not report this revenue in their annual returns, the Association estimated the amount; consequently the data were of uncertain validity. In addition, the Association no longer makes such unpublished data available. A new methodology has therefore been developed by the Social Security Administration that uses published data from the Census of Governments on revenue from charges made in government hospitals.

Under the current procedure, estimates of private consumer expenditures are made separately for (a) Federal hospitals, (b) State and local government hospitals, and (c) voluntary and proprietary hospitals. Total revenue (or total operating expense) for all types of hospitals, as reported in the Guide Issue of *Hospitals*, is used as a base. This figure is adjusted upward to take account of the revenues of nonreporting hospitals and for conversion of the data to the calendar

TABLE 1.—Private consumer expenditures for medical care: Amount and percentage distribution, by type of expenditure, selected years, 1948-62<sup>1</sup>

Type of expenditures	1948	1950	1955	1956	1957	1958	1959	1960	1961	1962
Amount (in millions)										
Total.....	\$7,663	\$8,669	\$12,906	\$14,279	\$15,518	\$16,652	\$18,243	\$19,648	\$20,749	\$21,945
Hospital care.....	1,689	2,126	3,512	3,827	4,137	4,432	4,746	5,207	5,667	6,098
Physicians' services <sup>2</sup> .....	2,490	2,597	3,433	3,787	4,101	4,553	5,105	5,388	5,577	5,823
Dentists' services.....	900	961	1,508	1,625	1,737	1,850	1,894	2,008	2,108	2,202
Drugs and drug sundries <sup>3</sup> .....	1,466	1,719	2,473	2,869	3,062	3,310	3,591	3,895	4,016	4,157
Eyeglasses and appliances <sup>4</sup> .....	431	486	685	814	990	991	1,185	1,219	1,247	1,372
Other professional services <sup>5</sup> .....	331	370	531	578	641	696	766	806	851	887
Nursing-home care.....	100	110	150	170	180	200	280	220	305	346
Health insurance, net cost <sup>6</sup> .....	256	300	614	609	670	620	740	845	978	1,060
Percentage distribution										
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hospital care.....	22.0	24.5	27.2	26.8	26.7	26.6	26.0	26.5	27.3	27.8
Physicians' services.....	32.5	30.0	26.6	26.5	26.4	27.3	28.0	27.4	26.9	26.5
Dentists' services.....	11.7	11.1	11.7	11.4	11.2	11.1	10.4	10.2	10.2	10.0
Drugs and drug sundries.....	19.1	19.8	19.2	20.1	19.7	19.9	19.7	19.8	19.4	18.9
Eyeglasses and appliances.....	5.6	5.6	5.3	5.7	6.4	6.0	6.5	6.2	6.0	6.3
Other professional services.....	4.3	4.3	4.1	4.0	4.1	4.2	4.2	4.1	4.1	4.0
Nursing-home care.....	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.4	1.5	1.6
Health insurance, net cost.....	3.3	3.4	4.8	4.3	4.3	3.7	4.1	4.3	4.7	4.8

<sup>1</sup> Includes all government and private employer contributions for health insurance of employees but excludes workmen's compensation payments for medical benefits and all medical payments under public programs. Data exclude Puerto Rico, the Virgin Islands, and Guam and, before 1960 Alaska and Hawaii. Data for the years omitted are reported in last year's article on "Private Medical Care Expenditures and Voluntary Health Insurance, 1948-61," *Social Security Bulletin*, December 1962. Data revised beginning 1956.

<sup>2</sup> Services of medical and osteopathic physicians in solo and group private

practice and in consumer-sponsored group clinics.

<sup>3</sup> Includes surgical supplies.

<sup>4</sup> Includes fees of optometrists and expenditures for hearing aids, orthopedic appliances, artificial limbs, crutches, wheelchairs, etc.

<sup>5</sup> Services of registered and practical nurses in private duty, visiting nurses, podiatrists, physical therapists, clinical psychologists, chiropractors, naturopaths, and Christian Science practitioners.

<sup>6</sup> Difference between income and benefit expenditures of all health organizations.

year. For all government hospitals, revenues from charges as reported by the Bureau of the Census,<sup>3</sup> after deduction of estimated vendor payments made by government agencies under various medical care programs, represent private consumer expenditures in these hospitals.

Consumer expenditures for care in voluntary and proprietary hospitals are residual amounts determined after deducting from total revenues the following: (a) research grants to hospitals; (b) estimated revenues from philanthropic sources (income from endowments, gifts, and payment by philanthropic organizations for care of patients); (c) government grants to hospitals and payments to hospitals by government agencies for care of patients under public programs (public assistance, the medical care program for dependents of military personnel, the Veterans Administration "home town" program, etc.); and (d) payments to hospitals by private carriers and self-insured employers under workmen's compensation. This new procedure resulted in estimates of consumer expenditures for hospital care approximately 2 percent lower than those previously made.

### CONSUMER MEDICAL CARE EXPENDITURES

Private consumer expenditures for medical care, as shown here, include all payments by private individuals for medical care and for purchase of health insurance. They also include contributions or payments by employers (private employers and government) for the purchase of health insurance for their employees.<sup>4</sup> They exclude (a) philanthropic contributions to hospitals or other health agencies and payments by philanthropic organizations, "united funds," "community chests," and similar organizations to hospitals, physicians, etc., for the care of needy or medically indigent patients; (b) government payments for medical care; (c) payments for the medical care of injured

<sup>3</sup> Department of Commerce, Bureau of the Census, *Summary of Governmental Finances* (published annually).

<sup>4</sup> On the basis of data compiled under the Welfare and Pension Plans Disclosure Act by the Office of Welfare and Pension Plans of the Department of Labor (*Welfare and Pension Plans Statistics, 1960*, February 1963), it is estimated that employer contributions for the purchase of health insurance for employees and their dependents amounted to approximately \$3.2 billion or less than half of all health insurance premiums in 1961. Data for 1962 are not yet available.

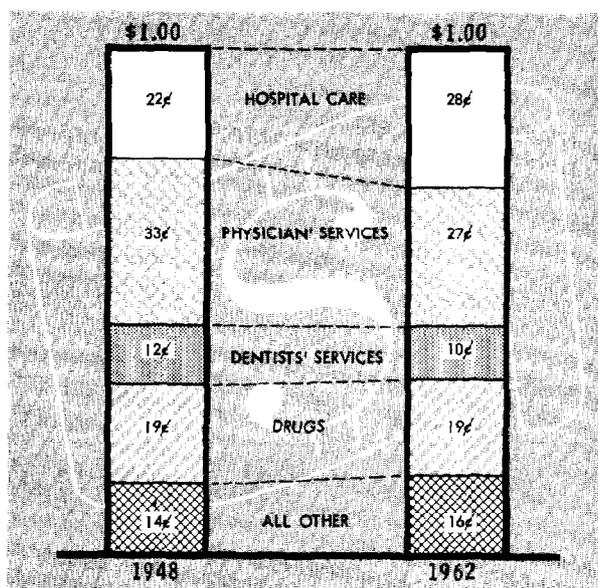
workers under workmen's compensation programs, whether such payments are made by insurance carriers, self-insured employers, or State workmen's compensation funds; and (d) payments for hospitalization made by the State fund under the California temporary disability program.

As in earlier years, private consumer medical care expenditures are presented in two ways. Table 1 shows the amount and percentage distribution of the medical care dollar by type of service, with the net cost of health insurance (the difference between premiums and benefit expenses) treated as a single item. Table 2 shows the direct payments by consumers and payments for health insurance for hospital care, physicians' services, and all other items of care, with a distribution of the net cost of insurance between hospital care and physicians' services.

Consumer medical care expenditures amounted to \$21.9 billion in 1962, a rise of \$1.2 billion from the amount spent in the preceding year. The percentage increase of 5.8 percent was about the same as that from 1960 to 1961 and was the smallest reported for any other year since 1949.

Hospital care expenditures increased 7.6 percent during 1962 to \$6.1 billion. Expenditures for the services of all practitioners—physicians, dentists, and others—rose approximately 4.0–4.5 percent. Amounts spent for drugs and drug

CHART 1.—The medical care dollar, 1948 and 1962



sundries, representing almost a fifth of the medical care dollar, increased only 3.5 percent. The largest relative increase—13.4 percent—was reported in expenditures for nursing-home care, where per diem costs and utilization of facilities continue to rise at a rapid rate. The 10-percent increase in expenditures for eyeglasses and appliances, including fees of optometrists, was the largest percentage increase in several years.

The net cost of obtaining health insurance, that is, the difference between premiums and benefit expenditures of health insurance organizations, amounted to \$1.1 billion—4.8 percent of the total health care bill in 1962. This amount represents the total retentions of health insurance organizations for acquisition and other administrative expenses, premium taxes, additions to reserves, and profits, and it was 8.4 percent higher than the amount retained for these purposes in 1961. This percentage increase from the preceding year was, however, the smallest reported since 1958.

The data shown in chart 1 give the distribution of the medical care dollar in 1948 and 1962. The

distribution of expenditures among the various items of care is, in general, the same as in earlier years, with the trends manifest for some time continuing—an increase in the share going for hospital care, a decrease in the proportion going for physicians' and dentists' services and drugs, and an increase in the proportion spent for health insurance service.

Direct payments by consumers amounted to \$14.4 billion in 1962, or 65.5 percent of all consumer expenditures for medical care (table 2). Benefit expenditures by health insurance organizations were \$6.5 billion or 29.6 percent of the total. As a result of the revisions in the data on expenditures for hospital care, the estimates of total expenditures and those for hospital care in the past few years are slightly lower than the estimates published in the BULLETIN for December 1962. The effect, since there is no reason to revise the amount shown for insurance benefits, is to reduce slightly the proportion of the consumer expenditures represented by direct payments.

During the 15 years covered by this series, con-

TABLE 2.—Private consumer expenditures for medical care: Amount and percentage distribution, by type of payment, selected years, 1948-62

Type of payment	1948	1950	1955	1956	1957	1958	1959	1960	1961	1962
Amount (in millions)										
Total.....	\$7,663	\$8,669	\$12,906	\$14,279	\$15,518	\$16,652	\$18,243	\$19,648	\$20,749	\$21,945
Direct payments.....	6,801	7,377	9,756	10,655	11,374	12,155	13,104	13,807	14,076	14,380
Payments for insurance.....	862	1,292	3,150	3,624	4,144	4,497	5,139	5,841	6,673	7,565
Benefits.....	606	992	2,536	3,015	3,474	3,877	4,399	4,996	5,695	6,505
Insurance service.....	256	300	614	609	670	620	740	845	978	1,060
Hospital care.....	1,881	2,315	3,851	4,173	4,513	4,773	5,185	5,726	6,249	6,709
Direct payments.....	1,234	1,446	1,833	1,805	1,833	1,841	1,801	1,850	1,828	1,700
Payments for insurance.....	647	869	2,018	2,368	2,680	2,932	3,384	3,876	4,421	5,009
Benefits.....	455	680	1,679	2,022	2,304	2,591	2,945	3,357	3,840	4,398
Insurance service.....	192	189	339	346	376	341	439	519	582	611
Physicians' services.....	2,554	2,707	3,708	4,050	4,395	4,832	5,402	5,714	5,973	6,272
Direct payments.....	2,339	2,285	2,576	2,794	2,931	3,267	3,647	3,749	3,721	3,716
Payments for insurance <sup>1</sup> .....	215	422	1,132	1,256	1,464	1,565	1,755	1,965	2,252	2,556
Benefits.....	151	312	857	993	1,170	1,286	1,454	1,639	1,856	2,107
Insurance service.....	64	110	275	263	294	279	301	326	396	449
Other services (direct payments only).....	3,228	3,646	5,347	6,056	6,610	7,047	7,656	8,208	8,527	8,964
Percentage distribution										
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct payments.....	88.8	87.2	75.6	74.6	73.3	73.0	71.8	70.3	67.8	65.5
Payments for insurance.....	11.2	12.8	24.4	25.4	26.7	27.0	28.2	29.7	32.2	34.5
Benefits.....	7.9	9.7	19.6	21.1	22.4	23.3	24.1	25.4	27.4	29.6
Insurance service.....	3.3	3.1	4.8	4.3	4.3	3.7	4.1	4.3	4.7	4.8
Hospital care.....	24.5	24.8	29.8	29.2	29.1	28.7	28.4	29.1	30.1	30.6
Direct payments.....	16.1	15.9	14.2	12.6	11.8	11.1	9.9	9.4	8.8	7.7
Payments for insurance.....	8.4	8.9	15.6	16.6	17.3	17.6	18.5	19.7	21.3	22.8
Benefits.....	5.9	6.8	13.0	14.2	14.8	15.6	16.1	17.1	18.5	20.0
Insurance service.....	2.5	2.1	2.6	2.4	2.4	2.0	2.4	2.6	2.8	2.8
Physicians' services.....	33.3	32.6	28.7	28.4	28.3	29.0	29.6	29.1	28.8	28.6
Direct payments.....	30.5	28.7	20.0	19.6	18.9	19.6	20.0	19.1	17.9	16.9
Payments for insurance <sup>1</sup> .....	2.8	3.9	8.8	8.8	9.4	9.4	9.6	10.0	10.9	11.6
Benefits.....	2.0	2.9	6.6	7.0	7.5	7.7	8.0	8.3	8.9	9.6
Insurance service.....	.8	1.0	2.1	1.8	1.9	1.7	1.6	1.7	1.9	2.0
Other services (direct payments only).....	42.1	42.6	41.4	42.4	45.4	42.3	42.0	41.8	41.1	40.8

<sup>1</sup> Includes small amount of insurance payments for drugs, private-duty nursing, dental care, nursing-home care, and appliances.

TABLE 3.—Private consumer medical care expenditures and national disposable personal income, 1948-62

Year	[In millions]		
	Disposable personal income <sup>1</sup>	Private medical care expenditures	
		Total expenditures	As percent of disposable personal income
1948.....	\$189,300	\$7,663	4.0
1949.....	189,654	7,931	4.2
1950.....	207,655	8,669	4.2
1951.....	227,481	9,379	4.1
1952.....	238,714	10,134	4.2
1953.....	252,474	11,033	4.4
1954.....	256,885	11,895	4.6
1955.....	274,448	12,906	4.7
1956.....	292,942	14,279	4.9
1957.....	308,791	15,518	5.0
1958.....	317,924	16,652	5.2
1959.....	337,145	18,243	5.4
1960.....	349,889	19,648	5.6
1961.....	364,433	20,749	5.7
1962.....	384,440	21,945	5.7

<sup>1</sup> Data from *Survey of Current Business*, Department of Commerce, July 1963.

sumer expenditures for health insurance (including the net cost of obtaining insurance) have increased from 11.2 percent of the total in 1948 to 34.5 percent in 1962 (table 2). Conversely, direct out-of-pocket payments for medical care have dropped from almost 90 percent of the total in 1948 to less than two-thirds in 1962.

Table 3 shows total private consumer expenditures for medical care as a percentage of disposable personal income for the years 1948-62. In 1962, as in 1961, these expenditures were equal to 5.7 percent of disposable personal income. Disposable personal income in 1962 was about twice the 1948 amount, and private health expenditures were almost three times the amount spent in 1948. Thus an increasing share of disposable personal income has been going for medical care.

Per capita expenditures for medical care, by type of service, are shown in table 4. Total per capita consumer expenditures for this purpose amounted to \$119.44 in 1962, compared with

\$114.51 in 1961 and \$52.79 in 1948. When population growth is eliminated as a factor contributing to the rise in aggregate expenditures, the increase in per capita expenditures since 1948 is 126 percent. Part of this increase results from a rise in the general price level and specifically from increases in the prices of health services and supplies. The rest is the result of greater utilization of medical care and of changes in the content and nature of such care—changes that, while increasing the effectiveness of health care, also increase the cost to the consumer-patient.

When medical care prices, based on the medical care component of the consumer price index published by the Bureau of Labor Statistics, are held constant (table 5), per capita expenditures show a rise of 38 percent from 1948 to 1962. This increase may be attributed to greater use of medical care and enrichment of the content of care.

## HEALTH INSURANCE

As part of the private consumer medical care expenditure series published annually in the *BULLETIN* since 1948, the Division of Research and Statistics compiles data on income and benefit expenditures of all voluntary health insurance organizations in the United States. They include (a) Blue Cross hospital-service plans and Blue Shield medical-service plans, for which data are obtained from the Blue Cross Association and the National Association of Blue Shield Plans; (b) insurance companies writing group and/or individual health insurance, with data provided by the Health Insurance Association of America; and (c) all other health insurance organizations (often called independent plans) that directly provide or make benefit payments for specified health services on a group prepayment, risk-

TABLE 4.—Per capita private consumer expenditures for medical care, selected years, 1948-62<sup>1</sup>

Type of expenditure	1948	1950	1955	1956	1957	1958	1959	1960	1961	1962
Total.....	\$52.79	\$57.71	\$79.51	\$86.34	\$92.15	\$97.10	\$104.53	\$110.29	\$114.51	\$119.44
Hospital care.....	11.63	14.15	21.64	23.14	24.57	25.84	27.19	29.23	31.28	33.19
Physicians' services.....	17.15	17.29	21.15	22.90	24.35	26.55	29.23	30.25	30.78	31.60
Dentists' services.....	6.20	6.40	9.29	9.83	10.31	10.79	10.85	11.27	11.63	11.98
Drugs and drug sundries.....	10.10	11.44	15.24	17.35	18.18	19.30	20.58	21.86	22.16	22.62
Eyeglasses and appliances.....	2.97	3.24	4.22	4.92	5.88	5.78	6.79	6.84	6.88	7.47
Other professional services.....	2.28	2.47	3.27	3.50	3.81	4.06	4.39	4.52	4.70	4.83
Nursing-home care.....	.69	.73	.92	1.03	1.07	1.17	1.26	1.57	1.68	1.88
Health insurance, net cost.....	1.76	1.99	3.78	3.68	3.98	3.62	4.24	4.74	5.40	5.77

<sup>1</sup> Data from table 1, related to civilian population as of July 1 of each year, excludes Alaska and Hawaii before 1960.

TABLE 5.—Total and per capita private consumer expenditures for medical care in 1962 prices,<sup>1</sup> 1948-62

Year	Total (in millions)	Per capita <sup>2</sup>
1948	\$12,542	\$86.40
1949	12,589	85.30
1950	13,482	89.75
1951	13,936	92.24
1952	14,273	93.07
1953	15,011	96.19
1954	15,693	98.64
1955	16,631	102.46
1956	17,760	107.39
1957	18,562	110.23
1958	18,987	110.72
1959	19,960	114.37
1960	20,748	116.46
1961	21,281	117.45
1962	21,945	119.44

<sup>1</sup> Based on medical-care component of consumer price index, Bureau of Labor Statistics, Department of Labor.

<sup>2</sup> Based on civilian population estimated by the Bureau of the Census as of July 1 of each year.

spreading basis. Data for the independent plans are obtained from the annual surveys of the plans made by the Division. The most recent complete survey, made in 1962, obtained data for the year 1961.<sup>5</sup> The data for 1962 are based on a survey of a few (27) of the larger plans, which in 1961 had more than half the enrollment in all independent plans.

<sup>5</sup> Donald G. Hay, Louis S. Reed, and Robert E. Melia, *Independent Health Insurance Plans in the United States, 1961*, Division of Research and Statistics, Research Report No. 2, 1963. For summary data, see also Donald G. Hay, "Independent Health Insurance Plans, 1961 Survey," *Social Security Bulletin*, February 1963.

Table 6 shows the income and benefit expenditures of the various types of voluntary health insurance organizations in 1962 and the amounts they retained for operating costs. The division of the amounts between hospital care and physicians' and other services is considered a reasonably close approximation.

The total premium income of all health insurance organizations represents the total amount spent by the public for health insurance. In 1962 it amounted to \$7.6 billion, of which 41.2 percent was the earned premium income of Blue Cross and Blue Shield plans, 52.4 percent the earned premiums of insurance companies, and 6.4 percent the income of other health insurance plans (tables 7 and 8). Among the latter—the independent plans—the predominant groups are (1) the plans sponsored by community or consumer groups and usually serving the general community, and (2) those operated or sponsored by employers, union-management welfare funds, unions, and employee associations, which serve particular employee or union groups.

Benefit outlays (claims expenses incurred for Blue Cross-Blue Shield plans and insurance companies) of all health insurance organizations amounted in 1962 to \$6.5 billion, or 86 percent of the \$7.6 billion premium income. The remaining \$1.1 billion (or 14 percent of income) was retained by the organizations for operating costs—\$791

TABLE 6.—Income, benefit expenditures, and amounts retained for operating costs of voluntary health insurance organizations, 1962

Type of organization	Income <sup>1</sup>			Benefit expenditures <sup>3</sup>			Amounts retained for operating costs <sup>4</sup>		
	Total	Hospital care	Physicians' and other services <sup>2</sup>	Total	Hospital care	Physicians' and other services <sup>2</sup>	Total	Hospital care	Physicians' and other services <sup>2</sup>
Total	\$7,565.1	\$5,009.0	\$2,556.1	\$6,504.8	\$4,398.1	\$2,106.7	\$1,060.3	\$610.9	\$449.4
Blue Cross-Blue Shield	3,118.6	2,219.2	899.4	2,893.6	2,092.9	800.7	225.0	126.3	98.7
Blue Cross <sup>5</sup>	2,212.8	2,100.5	52.3	2,087.4	2,041.4	46.0	125.4	110.1	6.3
Blue Shield <sup>6</sup>	905.8	58.7	847.1	806.2	51.5	754.7	99.6	7.2	92.4
Insurance companies	3,964.0	2,582.0	1,382.0	3,173.0	2,117.0	1,056.0	791.0	465.0	326.0
Group	2,708.0	1,691.0	1,017.0	2,453.0	1,605.0	848.0	255.0	86.0	169.0
Individual	1,256.0	891.0	365.0	720.0	512.0	208.0	536.0	379.0	157.0
Other plans	482.5	207.8	274.7	438.2	188.2	250.0	44.3	19.6	24.7
Community	164.0	54.3	109.7	151.2	50.0	101.2	12.8	4.3	8.5
Medical society, not Blue Shield	19.2	8.4	10.8	17.6	7.7	9.9	1.6	.7	.9
Dental society	2.4	—	2.4	2.3	—	2.3	.1	—	.1
Private group clinic	10.6	1.1	9.5	8.7	1.0	7.7	1.9	.1	1.8
Employer-employee-union	278.3	140.8	137.5	250.6	126.4	124.2	27.7	14.4	13.3
Student health services	8.0	3.2	4.8	7.8	3.1	4.7	.2	.1	.1

<sup>1</sup> Earned premium income for Blue Cross, Blue Shield, and insurance companies; total income for other plans.

<sup>2</sup> Includes small amount of insurance payments for drugs, private-duty nursing, dental care, nursing-home care, and appliances.

<sup>3</sup> Claims expenses for Blue Cross and Blue Shield; losses incurred for insurance companies; benefits paid or cost of providing benefits for most other plans.

<sup>4</sup> Amount retained for administrative expenses, premium taxes, additions

to reserves, and profits.

<sup>5</sup> Includes data for Health Services, Inc.

<sup>6</sup> Includes data for Medical Indemnity of America.

Source: Data for Blue Cross and Blue Shield plans from the national organizations of these plans; for insurance companies from the Health Insurance Association of America; for "other plans" from the 1963 survey by the Division of Research and Statistics (except that data for student health services were estimated by the Division).

TABLE 7.—Income and benefit expenditures of voluntary health insurance organizations, 1948-62

[In millions]

Year	Total	Blue Cross-Blue Shield plans			Insurance companies			Other plans
		Total	Blue Cross	Blue Shield	Total	Group	Individual	
1948	\$862.0	\$365.0	\$315.0	\$50.0	\$421.0	\$212.0	\$209.0	\$76.0
1949	1,015.5	455.3	362.2	93.1	461.0	241.0	220.0	99.2
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	2,756.3	1,133.7	803.7	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	1,867.0	1,305.9	561.1	2,314.0	1,606.0	708.0	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
1961	6,673.3	2,805.1	2,004.3	800.7	3,427.0	2,414.0	1,013.0	441.2
1962	7,565.1	3,118.6	2,212.8	905.8	3,964.0	2,708.0	1,256.0	482.5
Benefit expenditures								
1948	\$606.0	\$308.0	\$269.0	\$39.0	\$228.0	\$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	101.3
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	210.0
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
1961	5,695.4	2,585.4	1,867.1	718.3	2,706.0	2,170.0	536.0	404.0
1962	6,504.8	2,893.6	2,007.4	806.2	3,173.0	2,453.0	720.0	438.2

TABLE 8.—Percentage distribution of income and benefit expenditures among the various types of voluntary health insurance organizations, 1948-62<sup>1</sup>

Year	Total	Blue Cross-Blue Shield plans			Insurance companies			Other plans
		Total	Blue Cross	Blue Shield	Total	Group	Individual	
1948	100.0	42.3	36.5	5.8	48.8	24.6	24.2	8.8
1949	100.0	44.8	35.7	9.2	45.4	23.7	21.7	9.8
1950	100.0	44.4	33.8	10.6	46.8	25.8	21.1	8.7
1951	100.0	41.3	30.4	10.8	48.0	28.2	19.8	10.7
1952	100.0	42.7	30.9	11.8	48.0	28.5	19.5	9.3
1953	100.0	41.1	29.5	11.6	49.1	30.0	19.1	9.8
1954	100.0	41.1	29.2	12.0	50.4	31.5	18.9	8.5
1955	100.0	41.0	28.9	12.1	51.7	32.5	19.2	7.3
1956	100.0	41.2	28.9	12.3	50.8	33.6	17.2	8.0
1957	100.0	40.2	28.1	12.2	52.5	35.6	16.9	7.0
1958	100.0	41.5	29.0	12.5	51.4	35.7	15.7	7.7
1959	100.0	42.0	29.6	12.4	51.4	36.1	15.3	6.7
1960	100.0	42.5	30.4	12.1	51.8	36.0	15.8	5.7
1961	100.0	42.0	30.0	12.0	51.4	36.2	15.2	6.6
1962	100.0	41.2	29.2	12.0	52.4	35.8	16.6	6.4
Benefit expenditures								
1948	100.0	50.8	44.4	6.4	37.6	24.4	13.2	11.6
1949	100.0	49.9	40.2	9.7	38.5	23.5	15.0	11.6
1950	100.0	49.5	38.6	10.9	40.3	25.9	14.4	10.2
1951	100.0	44.7	33.6	11.2	43.4	30.7	12.7	11.8
1952	100.0	45.9	34.3	11.6	43.6	31.1	12.5	10.5
1953	100.0	44.4	32.7	11.7	44.5	32.6	11.9	11.1
1954	100.0	45.2	33.0	12.2	45.1	32.9	12.2	9.7
1955	100.0	45.2	32.8	12.4	46.5	33.8	12.7	8.3
1956	100.0	44.9	32.1	12.8	46.8	35.9	10.9	8.3
1957	100.0	44.5	31.8	12.7	47.6	37.9	9.7	7.8
1958	100.0	45.6	32.7	12.9	46.7	37.8	8.9	7.7
1959	100.0	45.3	32.4	13.0	47.3	38.2	9.1	7.4
1960	100.0	45.8	32.9	12.8	47.8	38.0	9.8	6.4
1961	100.0	45.4	32.8	12.6	47.5	38.1	9.4	7.1
1962	100.0	44.5	32.1	12.4	48.8	37.7	11.1	6.7

<sup>1</sup> Derived from table 7.

million by the insurance companies, \$225 million by the Blue Cross and Blue Shield plans, and \$44 million by independent plans. Operating costs include acquisition and other administrative expenses, premium taxes, and net income (additions to reserves or profits). The operating costs of health insurance organizations represent the net cost to consumers of obtaining health insurance.

Total premiums of all insurance organizations increased \$892 million or 13.4 percent in 1962. Benefit expenditures rose \$809.4 million—14.2 percent. The largest relative gains were reported for the individual policy business of insurance companies; premiums were about a fourth higher than in the preceding year and benefit expenditures about a third higher. Part of the increase in individual business is due to the fact that some of the larger insurance companies reported premium volume for group contracts with fewer than 25 lives in the individual columns of their annual statements; previously such contracts had been reported as group business. The shift of these

small groups from group to individual business makes the data not fully comparable with those for previous years.

The distribution of premium income, benefit expenditures, and operating costs between hospital care and physicians' and other services shown in table 6 needs some explanation. In furnishing data on the income and benefit expenditures of insurance companies, the Health Insurance Association of America has provided data on premium income and benefit expense under major-medical-expense policies. Under these policies, a single premium is paid and benefit expenditures are made for many items of health care in addition to hospital care and physicians' services.

Benefits paid to insured persons under these major-medical-expense policies totaled \$691 million in 1962, slightly more than one-fifth of the total benefits paid by insurance companies. On the basis of a special study of major-medical-expense business, the Health Insurance Association of

America estimates that 42.4 percent of benefit expenditures under all such policies in 1962 was for hospital care, 41.3 percent for physicians' services, and 16.3 percent for other services and supplies. (This distribution differs somewhat from that reported in the BULLETIN for December 1962.) The benefit payments for other services and supplies, amounting to \$112.7 million, have been included with those for physicians' services in table 6.

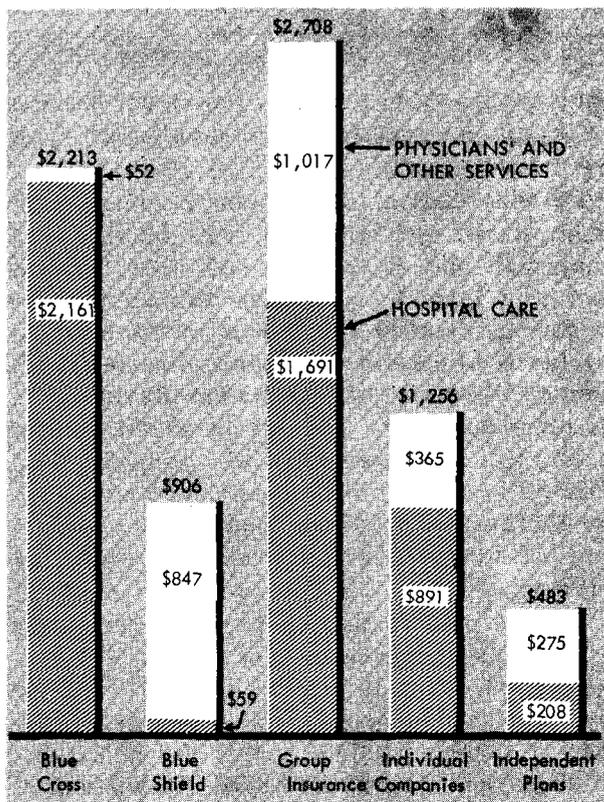
Blue Cross and Blue Shield plans also make benefit expenditures for items other than hospital care and physicians' services. Blue Cross expenditures for hospital care include small amounts paid for nursing-home care. Data from the Blue Cross Association indicate that about 10 percent of the persons with Blue Cross coverage also have major-medical or extended-benefit supplementary coverage—frequently written in cooperation with Blue Shield. The Blue Cross and Blue Shield associations cannot provide any estimates of expenditures under such supplementary contracts. If it is assumed that 2 percent of the total Blue Cross and

Blue Shield benefit expenditures is for items other than hospital care or physicians' services, then an estimated \$58 million was expended for these items in 1962. It is probable, but not certain, that most of these expenditures are included with those for hospital care in table 6.

On the basis of the survey of independent plans made by the Division in 1962, it is estimated that approximately 8 percent (about \$35 million) of the benefit expenditures was for dental care, drugs, and nursing and other services. These expenditures are shown in table 6 under physicians' and other services. In summary, a small fraction of the benefit expenditures for hospital care shown in table 6 actually was for other services, and about \$150 million of the expenditures for physicians' and other services was for drugs, nursing services, nursing-home care, dental care, and other types of care.

CHART 2.—Premium income of voluntary health insurance organizations, by type of service, 1962

[In millions]



## TRENDS IN VOLUNTARY HEALTH INSURANCE

Tables 7 and 8 show the amount and percentage distribution of income and benefit expenditures of the different types of health insurance plans since 1948.

TABLE 9.—Percentage distribution of income and benefit expenditures of voluntary health insurance organizations for hospital care, and for physicians' and other services, 1962

Type of organization	Total	Hospital care	Physicians' and other services <sup>1</sup>
Income			
Amount (in millions).....	\$7,565.1	\$5,009.0	\$2,556.1
Total, percent.....	100.0	100.0	100.0
Blue Cross-Blue Shield.....	41.2	44.3	35.2
Blue Cross.....	29.2	43.1	2.1
Blue Shield.....	12.0	1.2	33.1
Insurance companies.....	52.4	51.6	54.1
Group.....	35.8	33.8	39.8
Individual.....	16.6	17.8	14.3
Other.....	6.4	4.1	10.7
Benefit expenditures			
Amount (in millions).....	\$6,504.8	\$4,398.1	\$2,106.7
Total, percent.....	100.0	100.0	100.0
Blue Cross-Blue Shield.....	44.5	47.6	38.0
Blue Cross.....	32.1	46.4	2.2
Blue Shield.....	12.4	1.2	35.8
Insurance companies.....	48.8	48.1	50.1
Group.....	37.7	36.5	40.2
Individual.....	11.1	11.6	9.9
Other.....	6.7	4.3	11.9

<sup>1</sup> Includes small amount of insurance payments for drugs, private-duty nursing, dental care, nursing-home care, and appliances.

TABLE 10.—Operating costs of voluntary health insurance organizations as a percent of income, 1948–62<sup>1</sup>

Year	All plans	Blue Cross-Blue Shield			Insurance companies			Other plans
		Total	Blue Cross	Blue Shield	Total	Group	Individual	
1948	29.7	15.6	14.6	22.0	45.8	30.2	61.7	7.9
1949	24.5	15.9	14.8	20.3	36.0	25.3	47.7	10.3
1950	23.2	14.5	12.3	21.6	33.9	22.8	47.4	10.0
1951	18.5	11.7	10.2	15.8	26.3	11.3	47.7	10.0
1952	19.5	13.5	10.7	20.7	27.0	12.5	48.4	8.6
1953	20.2	13.9	11.5	19.8	27.7	13.4	50.1	9.5
1954	20.9	13.2	10.7	19.2	29.3	17.4	49.0	9.3
1955	19.5	11.3	8.6	17.6	27.5	16.1	46.9	8.8
1956	16.8	9.3	7.5	13.7	22.9	11.0	47.3	14.1
1957	16.2	7.2	4.9	12.7	23.9	10.7	51.8	9.7
1958	13.8	5.3	2.8	11.0	21.8	8.8	51.3	5.2
1959	14.4	7.5	6.4	10.1	21.2	9.3	49.1	5.5
1960	14.5	7.9	7.2	9.6	21.1	9.6	47.1	3.5
1961	14.7	7.8	6.8	10.3	21.0	10.1	47.1	8.4
1962	14.0	7.2	5.7	11.0	20.0	9.4	42.7	9.2

<sup>1</sup> Derived from table 7.

The percentage distribution of premium income since 1948 among the major types of plans shows that the share of Blue Cross-Blue Shield plans in total income was highest in 1949 and 1950 and since then has remained relatively stable at about 41 percent of the total. The share of insurance companies in the total increased somewhat from 1949 to 1957, dropped slightly in 1958, and remained at that level until 1962 when there was a 1-percent increase. The group policy portion of insurance company business was gradually increasing until 1962, and the individual policy portion declining.

The proportion of total income received by the "other" plans—the independent plans—has declined since 1948. One reason is their slower growth, and another is the shift of several large medical-society-sponsored plans from the independent group to membership in Blue Shield.

In terms of benefit expenditures, the share of Blue Cross-Blue Shield and the independent plans has tended to decline since 1948, with a corresponding increase in the share of insurance companies. The most notable change in 1962 was the greater share of individual policy benefit payments.

Table 9 and chart 2 show the total amount and percentage distribution of income and benefit expenditures in 1962 for hospital care and physicians' and other services according to type of organization. The share of Blue Cross-Blue Shield in the total is larger for hospital care than for physicians' and other services; for insurance companies the situation is reversed. The share of in-

dependent plans in total income and in benefit expenditures is considerably higher for physicians' services than for hospital care, partly because two of the larger plans—the Health Insurance Plan of Greater New York and Group Health Insurance—do not cover hospital care. Eleven percent of the benefit payments shown for "physicians' and other services" made by insurance companies and independent plans is for services other than physicians' services—that is, dental care, drugs, nursing services, and nursing-home care.

## OPERATING COSTS

Table 10 shows the ratio of operating costs to total premium income for the voluntary health

TABLE 11.—Private consumer expenditures for medical care: Amount and percent met by voluntary health insurance, 1948–62

Year	[Amounts in millions]							
	Total medical care expenditures		Hospital care only		Physicians' services		Hospital care and physicians' services	
	Amount	Percent met by insurance	Amount	Percent met by insurance	Amount	Percent met by insurance <sup>1</sup>	Amount	Percent met by insurance <sup>1</sup>
With expense to obtain insurance excluded								
1948	\$7,407	8.2	\$1,689	26.9	\$2,490	6.1	\$4,179	14.5
1949	7,682	10.0	1,802	29.9	2,501	9.1	4,303	17.8
1950	8,369	11.9	2,126	32.0	2,597	12.0	4,723	21.0
1951	9,072	14.9	2,334	38.4	2,697	16.9	5,031	26.9
1952	9,745	16.5	2,602	41.3	2,851	18.6	5,453	29.4
1953	10,547	18.2	2,909	44.2	3,063	20.6	5,972	32.1
1954	11,318	19.3	3,167	45.5	3,336	22.1	6,503	33.5
1955	12,292	20.6	3,512	47.8	3,433	25.0	6,945	36.5
1956	13,670	22.1	3,827	52.8	3,787	26.2	7,614	39.6
1957	14,848	23.4	4,137	55.7	4,101	28.5	8,238	42.2
1958	16,032	24.2	4,432	58.5	4,553	28.2	8,985	43.1
1959	17,503	25.1	4,746	62.1	5,101	28.5	9,847	44.7
1960	18,803	26.6	5,207	64.5	5,388	30.4	10,595	47.2
1961	19,771	28.8	5,667	67.8	5,577	33.3	11,244	50.6
1962	20,885	31.1	6,098	72.1	5,823	36.2	11,921	54.6
With expense to obtain insurance included								
1948	7,663	7.9	1,881	24.2	2,554	5.9	4,435	13.7
1949	7,931	9.7	1,970	27.4	2,582	8.8	4,552	16.8
1950	8,669	11.4	2,315	29.4	2,707	11.5	5,022	19.8
1951	9,379	14.4	2,522	35.6	2,816	16.2	5,338	25.3
1952	10,134	15.8	2,834	37.9	3,008	17.6	5,842	27.5
1953	11,033	17.4	3,194	39.9	3,284	19.9	6,458	29.7
1954	11,895	18.3	3,492	41.3	3,588	20.5	7,080	30.8
1955	12,906	19.6	3,851	43.6	3,708	23.1	7,559	33.5
1956	14,279	21.1	4,173	48.5	4,050	24.5	8,223	36.7
1957	15,518	22.4	4,513	51.1	4,395	26.6	8,908	39.0
1958	16,652	23.3	4,773	54.3	4,832	28.6	9,605	40.4
1959	18,243	24.1	5,185	56.8	5,402	28.9	10,587	41.6
1960	19,648	25.4	5,726	58.6	5,714	28.7	11,440	43.7
1961	20,749	27.4	6,249	61.4	5,973	31.1	12,222	46.6
1962	21,945	29.6	6,709	65.6	6,272	33.6	12,981	50.1

<sup>1</sup> For physicians' services, amount represents expenditures for such services only, but percent is based on amount that includes some insurance payments for drugs, private-duty nursing, dental care, nursing-home care, and appliances.

insurance organizations. In 1962, 14.0 percent of all payments for health insurance was retained for operating costs—acquisition and other administrative expenses, premium taxes (paid by insurance companies and a few Blue Cross-Blue Shield plans), additions to reserves, and profits. The proportion varies greatly among the different types of insurance organizations (5.7 percent for Blue Cross, 11.0 percent for Blue Shield, 20.0 percent for the insurance companies, and 9.2 percent for the independent plans). Among insurance companies the ratio of operating costs to premium income is 9.4 percent for group business and 42.7 percent for individual business. The ratio of operating costs to all payments for health insurance (14.0 percent) was lower in 1962 than in any other year covered by the series except 1958.

### PRIVATE EXPENDITURES MET BY INSURANCE

Table 11 shows the amount and percent of total private consumer expenditures for medical care met by voluntary health insurance. When net expenditures to obtain insurance are excluded, insurance met 31.1 percent of the total in 1962; when they are included, the proportion is slightly lower (29.6 percent).

The proportion of consumer expenditures for medical care that is met by health insurance has increased steadily since 1948. In that year, only 8.2 percent of total expenditures was covered by insurance.

The proportion of expenditures for hospital care and physicians' services met by insurance is also shown, as in earlier years. For the proportion of the hospital bill met by insurance, the revisions in the estimated total hospital costs resulted in higher figures for recent years than those published earlier.

As indicated previously, only approximate estimates can be made of the proportion of insurance payments that goes for hospital care, physicians' services, or other items of medical expense. The distribution of benefits under major-medical-expense policies depends on a number of factors, including the assumptions made as to the types of expense met by deductible amounts and by coinsurance. Table 11 is based on estimates of the Health Insurance Association of America for the

allocation of benefit payments of insurance companies among the different types of expenditures. However, in calculating the percentage of expenditures for physicians' services met by insurance, benefits for "other supplies and services" are included with those for physicians' services.

When insurance payments for such services and supplies are excluded, the proportion of expenditures for physicians' services met by insurance payments is reduced to approximately 32.6 percent. It is estimated that insurance payments met approximately 2.3 percent of expenditures for items other than hospital care and physicians' services. This is a higher figure than that estimated in the December 1962 BULLETIN article, chiefly because of the revised data on major-medical benefit payments from the Health Insurance Association of America.

The reader is cautioned on the interpretation of the figure for the proportion of hospital expenditures met by insurance. The proportion given—72.1 percent—is subject to misinterpretation if considered in conjunction with the widely accepted estimates of the Health Insurance Council that 76 percent of the civilian population had hospital insurance at the end of 1962. From that point of view, it might appear that insurance is paying almost all the hospital bill of persons with insurance. Population surveys make it clear that this is not the case.

A better understanding of the proportion of hospital care and other medical care expenditures met by insurance may be obtained by measuring these benefits against total expenditures for this purpose.<sup>6</sup> Private consumer expenditures for hospital care, as estimated for this article, represent only 58 percent of total expenditures for hospital care (approximately \$10.6 billion in 1962); the remaining 42 percent is financed from public funds and philanthropy. On this basis, insurance payments met 42 percent of total expenditures for hospital care. For all personal health care expenditures, insurance payments met 23 percent of the cost, public funds 25 percent, and about half represented direct payments by consumers to providers of service.

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<sup>6</sup> For further details, see Ida C. Merriam, "Social Welfare Expenditures," *Social Security Bulletin*, November 1963.