

# Private Health Insurance in 1973: A Review of Coverage, Enrollment, and Financial Experience

by MARJORIE SMITH MUELLER\*

*In 1973, about three-fourths of the civilian population were covered by private health insurance for substantial portions of their costs for hospital and surgical care. Lesser numbers were covered at least in some part for other health care costs, usually after payment of deductibles and coinsurance. Private insurers returned \$21.6 billion (or 88 percent) of subscribers' premiums in the form of such payments. Insurance companies continued to dominate the market in providing coverage for hospital and physicians' services, prescription drugs and dental care, and most nursing services*

*The economic stabilization program continued to be a factor throughout 1973 in the slower rate of growth of both income and benefits. The gap between growth rates of income and benefits narrowed, as well.*

The trend toward broad comprehensive coverage of health care services is unmistakable. The depth of coverage, however, is a function of benefit levels, exclusions, restrictions, and dollar costs met. Nonhospital related services covered by private health insurance plans are almost always subject to deductible and coinsurance payments by the insured. Hospital and surgical care plans frequently have age limits, deductible and copayment provisions, and/or maximum payments for services. Hospital coverage usually has some limitations with respect to duration of benefits, kinds of illnesses eligible for care and treatment, and other special conditions; surgical coverage often involves waiting periods, restrictions on specific services or conditions, and exclusions.

Virtually all persons aged 65 and over have health insurance coverage, mainly through the Federal Government's Medicare program. As of January 1, 1973, the total number enrolled for hospital care under Medicare was 21.0 million; for supplementary medical insurance the number was 20.4 million. These figures are based on an actual count from the health insurance entitlement master file. In 1973, 12 million (57 percent) of the aged bought private insurance, in most cases to supplement or complement their Medicare coverage. Private health insurance plans for the aged mainly fill some or all of the gaps in the Medicare program—deductibles, coinsurance payments, drugs, etc.

Despite the growth of private insurance in the health care field, an estimated 41 million Americans under age 65 have no economic protection through private insurance against hospital costs; 42 million have no insurance for surgical care. The health insurance industry's own estimates are much lower: 17 million without hospital insurance, 28 million without surgical insurance. Undoubtedly, some Americans who could afford to buy private health insurance choose not to do so. Many other persons receive assistance with these costs through such programs as Medicaid (medical assistance), the civilian health and

IN 1973, 3.2 MILLION more Americans gained economic protection through private health insurance against their costs for hospital care; 2.3–4.2 million more persons gained some coverage for physicians' services and health care services provided outside the hospital.

The health insurance industry—Blue Cross-Blue Shield, the insurance companies, the independent community, employer-employee-union, and private group clinic plans, and health maintenance organizations (HMO's)—met a high proportion of hospital and surgical care costs for three-fourths of the population and a wide-ranging portion of expenditures for other sorts of medical and health care for smaller proportions of the population. Insurance paid for most of the cost of in-hospital physicians' visits and out-of-hospital X-ray and laboratory examinations in behalf of 73 percent of Americans. Thirty-four percent had some coverage for home and office visits, 60 percent for prescribed out-of-hospital drugs, and 10 percent for dental care. A third of all Americans had coverage for nursing-home care; 57–59 percent had some protection against the costs of other nursing services.

\* Division of Health Insurance Studies, Office of Research and Statistics. The author was assisted by Paula A. Piro.

medical care program for the uniformed services (CHAMPUS), the Veterans Administration programs, State disability insurance programs, and workmen's compensation.

In fiscal year 1973, for example, Medicaid payments were made in behalf of an estimated 20.9 million persons. These were, for the most part, children (45.2 percent) and the poor, including persons aged 65 and over (16.8 percent). Some of the latter were undoubtedly covered by Medicare; their Medicaid payments were for care not authorized under Medicare. Some Medicaid recipients may also have had private health insurance that did not cover all their care or had exhausted their benefits. It is known, however, that in 1974 the Medicaid program still excluded an estimated 9 million poor persons. Only 40 percent of the poor in the labor force had even limited private insurance against health care costs, and fewer than 10 percent had insurance against nonhospital services.<sup>1</sup> Because the degree of overlap in coverage by public and private plans is not known, the number of persons who have no economic protection against health care costs is not easily determined.

Office of Research and Statistics (ORS) estimates of the net number and the proportion of the population having private health insurance coverage for hospital care and surgical services are used in this article together with the estimates of the Health Insurance Association of America (HIAA). Both sets of estimates show a continued growth during 1973 in the number and percentage of the population covered. The reader will note that the ORS and HIAA estimates are frequently several percentage points apart, probably due to differences in reporting methods. The true figures lie somewhere in the range between the two sets of estimates.

Consumer expenditures for private health insurance in 1973 totaled \$24.5 billion in premiums and subscription charges, up 9.7 percent from 1972. Benefit expenditures by private health insurance organizations reached \$21.6 billion, 10.7 percent higher than the 1972 total. The organizations paid out a little more than 88 percent of premium income in benefits and 13.7 percent went

for operating expenses, with a resulting net underwriting loss of 1.8 percent of premiums.

## POPULATION COVERAGE

ORS estimates of the net number of different persons and the percentage of the population with private insurance coverage in 1973 for hospital care, various physicians' services, and other major types of care are summarized in table 1. Although more than three-fourths of the population were covered for hospital and surgical care and close to that proportion for most other physicians' services, the actual dollar protection for these services ranged widely: 75 percent of all consumer expenditures for hospital care was met by private insurance but only 48 percent was met by insurance for physicians' services, and only 7 percent for other types of care. The small proportion of reimbursement for the latter reflects not only the proportionately lower rate of coverage—only 10 percent of the population had coverage for dental care and only 34 percent had insurance for physicians' home and office visits—but also the limited benefit levels for such services. Until basic health insurance plans become more comprehensive in scope and/or major medical insurance and extended benefits are more

TABLE 1—Estimates of net number of different persons under private health insurance plans and percent of population covered, by age and specified type of care, as of December 31, 1973

Type of service	All ages		Under age 65		Aged 65 and over	
	Number (in thousands)	Percent of civilian population	Number (in thousands)	Percent of civilian population	Number (in thousands)	Percent of civilian population
Hospital care.....	158,475	75 8	146,089	78 0	12,386	57 4
Physicians' services						
Surgical services.....	156,913	75 1	145,352	77 6	11,561	53 6
In-hospital visits....	153,461	73 4	144,592	77.2	8,869	41 1
X-ray and laboratory examinations.....	152,797	73 1	143,995	76 9	8,802	40 8
Office and home visits.....	70,038	33 5	65,880	35 2	4,158	19 3
Dental care.....	21,626	10 4	21,392	11 4	234	1 1
Prescribed drugs (out-of-hospital)....	124,971	59 8	120,987	64 6	3,984	18 5
Private-duty nursing service.....	118,805	56 9	115,175	61 5	3,630	16 8
Visiting-nurse service.....	122,688	58 7	117,872	62 9	4,816	22 3
Nursing-home care....	69,152	33 1	62,621	33 4	6,531	30 3
HIAA estimates						
Hospital care.....	182,079	87 1	170,256	90 9	11,823	54 8
Surgical services....	169,416	81 1	159,462	85 1	9,954	46 1

<sup>1</sup> Karen Davis, "National Health Insurance," chapter 8, *Setting National Priorities, The 1975 Budget*, The Brookings Institution, 1974.

widely held, the bulk of the cost for these health care services will continue to fall directly on the consumer.

## ENROLLMENT

Gross enrollments—the total numbers of persons enrolled by all types of health insurance organizations for each of 11 services—are reported in tables 2–4. Estimates of the net number of different persons covered—with duplication within the industry and among the insurers eliminated—are reported as calculated by ORS and by HIAA. The gross enrollment for persons of all ages for hospital care was 225 million (table 2). According to ORS projections of the 1972 Household Interview Survey, 158 million different persons were covered for hospital care in 1973. Thus, 67 million or approximately 30 percent of gross enrollment represented multiple or duplicatory coverage. HIAA estimated such net coverage at 182 million. Multiple coverage occurs chiefly in these ways: (a) When both spouses are employed and both have group insurance through their employer; (b) when a person with group coverage purchases an individual insurance policy to supplement his group plan; and (c) when a per-

son not eligible for group coverage holds two or more individual insurance policies, usually to supplement each other because of limited benefits.

Blue Cross plans over the country had 72 million persons under age 65 enrolled for hospital care at the end of 1973 (table 3). Blue Shield plans had an additional 2 million persons enrolled for that type of care. The commercial carriers covered 82 million persons under group policies and an additional 47 million persons under individual policies. Independent community, employer-employee-union, and private group medical clinics provided hospital care for an estimated 8.6 million persons.

The gross enrollment for surgical care approached the level of hospitalization insurance. Blue Shield plans accounted for 64 million persons under age 65, with nonaffiliated Blue Cross plans reporting an additional 3.7 million persons. Group insurance policies issued by the companies accounted for 83 million persons; an additional 34 million were covered by individual policies. Independent plans covered above 11.5 million. The vast majority of their enrollment is through employment groups—only a small percentage enrolled through individual memberships. Blue Cross-Blue Shield enrollment figures include both group and nongroup subscribers.

TABLE 2.—Enrollment under private health insurance plans for persons of all ages and estimates of the net number of different persons covered, by type of plan and specified type of care, as of December 31, 1973

[In thousands]

Type of plan	Hospital care	Physicians' services				Dental care	Pre-scribed drugs (out-of-hospital)	Private-duty nursing	Visiting-nurse service	Nursing-home care	Vision care
		Surgical services	In-hospital visits	X-ray and laboratory examinations	Office and home visits						
Total gross enrollment.....	225,048	207,124	181,093	181,256	114,496	21,626	131,100	124,637	128,678	70,469	7,295
Blue Cross-Blue Shield.....	81,541	75,136	71,766	62,060	34,552	1,740	38,168	35,344	39,206	40,226	654
Blue Cross.....	79,395	4,098	3,663	(1)	1,222	(1)	(1)	(1)	(1)	(1)	(1)
Blue Shield.....	2,146	71,038	68,103	(1)	33,330	(1)	(1)	(1)	(1)	(1)	(1)
Insurance companies.....	134,338	119,856	98,107	107,361	68,650	11,328	87,515	81,559	81,559	27,275	(1)
Group policies.....	83,459	84,026	78,482	95,724	59,913	11,281	81,710	74,454	74,454	22,069	(1)
Individual policies.....	50,879	35,830	19,625	11,637	8,737	47	5,805	7,105	7,105	5,206	(1)
Independent plans.....	9,169	12,132	11,220	11,835	11,294	8,558	5,417	7,734	7,913	2,968	6,641
Community.....	3,538	5,930	5,930	5,840	5,840	1,126	1,729	4,724	5,218	776	4,153
Employer-employee-union.....	5,491	6,057	5,145	5,870	5,309	1,880	3,661	2,990	2,685	2,092	2,353
Private group clinic.....	140	145	145	145	145	52	27	20	10	100	135
Dental service corporation.....						5,500					
Net number of different persons covered, as estimated by—											
ORS.....	158,475	156,913	153,461	152,797	70,038	21,626	124,971	118,805	122,688	69,152	-----
Percent of civilian population <sup>1</sup> .....	75.8	75.1	73.4	73.1	33.5	10.4	59.8	56.9	58.7	33.1	-----
HIAA.....	182,079	169,416	152,167	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----
Percent of civilian population <sup>1</sup> .....	87.1	81.1	72.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----
Gross enrollment as percent of different persons covered, as estimated by—											
ORS.....	142.0	132.0	118.0	118.6	163.5	100.0	104.9	104.9	104.9	101.9	-----
HIAA.....	123.6	122.3	119.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----

<sup>1</sup> Data not available.

<sup>2</sup> Based on Bureau of Census estimate of 208,954,000 as of Jan. 1, 1974.

A total of 13.3 million persons aged 65 and older were enrolled for hospital care, 5-11 million for various physicians' services (table 4). Only

4 million were enrolled for drugs. Most private insurance coverage was purchased by those aged 65 and older in an effort to fill the gaps in the

TABLE 3.—Enrollment under private health insurance plans for persons under age 65 and estimates of the net number of different persons covered, by type of plan and specified type of care, as of December 31, 1973

[In thousands]

Type of plan	Hospital care	Physicians' services				Dental care	Pre-scribed drugs (out-of-hospital)	Private-duty nursing	Visiting-nurse service	Nursing-home care	Vision care
		Surgical services	In-hospital visits	X-ray and laboratory examinations	Office and home visits						
Total gross enrollment.....	211,765	196,110	171,760	171,354	109,686	21,392	127,036	120,934	123,766	63,873	6,818
Blue Cross-Blue Shield.....	74,057	67,798	65,375	58,048	31,982	1,730	36,568	34,020	36,815	34,426	607
Blue Cross.....	72,140	3,722	3,394	(1)	1,154	(1)	(1)	(1)	(1)	(1)	(1)
Blue Shield.....	1,917	64,076	61,981	(1)	30,828	(1)	(1)	(1)	(1)	(1)	(1)
Insurance companies.....	129,109	116,850	95,838	104,147	67,034	11,150	85,380	79,570	79,570	26,737	(1)
Group policies.....	82,272	82,861	77,412	92,816	58,509	11,103	79,717	72,638	72,638	21,631	(1)
Individual policies.....	46,837	33,989	18,426	11,331	8,525	47	5,663	6,932	6,932	5,206	(1)
Independent plans.....	8,599	11,462	10,547	11,159	10,670	8,512	5,088	7,344	7,381	2,710	6,211
Community.....	3,356	5,672	5,672	5,562	5,581	1,104	1,648	4,543	4,971	686	3,913
Employer-employee-union.....	5,119	5,664	4,749	5,471	4,963	1,858	3,432	2,784	2,400	1,932	2,175
Private group clinic.....	124	126	126	126	126	50	8	17	10	92	123
Dental service corporation.....						5,500					
Net number of different persons covered, as estimated by—											
ORS.....	146,089	145,352	144,592	143,995	65,880	21,392	120,987	115,175	117,872	62,621	-----
Percent of civilian population <sup>2</sup> .....	78.0	77.6	77.2	76.9	35.2	11.4	64.6	61.5	62.9	33.4	-----
HIAA.....	170,256	159,462	143,155	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----
Percent of civilian population <sup>2</sup> .....	90.9	85.1	76.4	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----
Gross enrollment as percent of different persons covered, as estimated by—											
ORS.....	145.0	134.9	118.8	119.0	166.5	100.0	105.0	105.0	105.0	102.0	-----
HIAA.....	124.4	123.0	120.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----

<sup>1</sup> Data not available.

<sup>2</sup> Based on Bureau of the Census estimate of 187,370,000 as of Jan. 1, 1974.

TABLE 4.—Enrollment under private health insurance plans for persons aged 65 and over and estimates of the net number of different persons covered, by type of plan and specified type of care, as of December 31, 1973

[In thousands]

Type of plan	Hospital care	Physicians' services				Dental care	Pre-scribed drugs (out-of-hospital)	Private-duty nursing	Visiting-nurse service	Nursing-home care	Vision care
		Surgical services	In-hospital visits	X-ray and laboratory examinations	Office and home visits						
Total gross enrollment.....	13,283	11,014	9,333	9,902	4,810	234	4,064	3,703	4,912	6,596	477
Blue Cross-Blue Shield <sup>1</sup> .....	7,484	7,338	6,391	<sup>2</sup> 6,012	2,570	10	1,600	1,324	2,391	<sup>2</sup> 5,800	47
Blue Cross.....	7,255	376	269	(1)	68	(1)	(1)	(1)	(1)	(1)	(1)
Blue Shield.....	229	6,962	6,122	(1)	2,502	(1)	(1)	(1)	(1)	(1)	(1)
Insurance companies.....	5,229	3,006	2,269	3,214	1,616	178	2,135	1,989	1,989	638	(1)
Group policies.....	1,187	1,165	1,070	2,908	1,404	178	1,993	1,816	1,816	538	(1)
Individual policies.....	4,042	1,841	1,199	306	212	-----	142	173	173	-----	(1)
Independent plans.....	670	670	673	676	624	46	329	390	532	258	430
Community.....	182	258	258	258	259	22	81	181	247	90	240
Employer-employee-union.....	372	393	396	399	346	22	229	206	285	160	178
Private group clinic.....	16	19	19	19	19	2	19	3	-----	8	12
Dental service corporation.....						0					
Net number of different persons covered, as estimated by—											
ORS.....	12,386	11,561	8,869	8,802	4,158	234	3,984	3,630	4,816	6,531	-----
Percent of civilian population <sup>4</sup> .....	57.4	53.6	41.1	40.8	19.3	1.1	18.5	16.8	22.3	30.3	-----
HIAA.....	11,823	9,954	9,012	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----
Percent of civilian population <sup>4</sup> .....	54.8	46.1	41.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----
Gross enrollment as percent of different persons covered, as estimated by—											
ORS.....	107.2	95.3	105.2	112.5	115.7	100.0	102.0	102.0	102.0	101.0	-----
HIAA.....	112.3	110.6	103.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----

<sup>1</sup> Includes disabled persons under age 65  
<sup>2</sup> Mainly coverage of Medicare deductibles.

<sup>3</sup> Data not available  
<sup>4</sup> Based on Bureau of the Census estimate of 21,584,000 as of Jan. 1, 1974.

TABLE 5.—Percentage distribution of total gross enrollment under private health insurance plans, by age, type of plan, and specified type of care, as of December 31, 1973

Age group and type of plan	Hospital care	Physicians' services				Dental care	Prescribed drugs (out-of-hospital)	Private-duty nursing	Visiting-nurse service	Nursing-home care
		Surgical services	In-hospital visits	X-ray and laboratory examinations	Office and home visits					
Total, all ages.....	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Blue Cross-Blue Shield.....	36 2	36 3	39 6	34 3	30 2	8 0	29 1	28 4	30 5	57 1
Insurance companies.....	59 7	57 9	54 2	59 2	59 9	52 4	66 8	65 4	63 4	38 7
Group policies.....	37 1	40 6	43 4	52 8	52 3	52 2	62 3	59 7	57 9	31 3
Individual policies.....	22 6	17 3	10 8	6 4	7 6	2	4 5	5 7	5 5	7 4
Independent plans.....	4 1	5 8	6 2	6 5	9 9	39 6	4 1	6 2	6 1	4 2
Under age 65, total.....	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Blue Cross-Blue Shield.....	35 0	34 6	38 1	32 7	29 2	8 0	28 8	28 1	29 7	53 9
Insurance companies.....	61 0	59 6	55 8	60 8	61 1	52 4	67 2	65 8	64 3	41 9
Group policies.....	38 9	42 3	45 1	54 2	53 3	51 9	62 8	60 1	58 7	33 7
Individual policies.....	22 1	17 3	10 7	6 6	7 8	2	4 4	5 7	5 6	8 2
Independent plans.....	4 0	5 8	6 1	6 5	9 7	39 8	4 0	6 1	6 0	4 2
Aged 65 and over, total.....	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Blue Cross-Blue Shield.....	56 3	66 6	68 5	60 7	53 4	4 3	39 4	35 8	48 7	87 9
Insurance companies.....	39 4	27 3	24 3	32 5	33 6	76 1	52 5	53 7	40 5	8 2
Group policies.....	9 0	10 6	11 5	29 4	29 2	76 1	49 0	49 0	37 0	8 2
Individual policies.....	30 4	16 7	12 8	3 1	4 4	-----	3 5	4 7	3 5	-----
Independent plans.....	4 3	6 1	7 2	6 8	13 0	19 6	8 1	10 5	10 8	3 9

Medicare program—deductibles and coinsurance payments, as well as at least some of the services not covered by the Federal program.

### Enrollment Shares

Private insurers continued to share the market on about the same basis as in 1972 (table 5). Insurance companies held well over half the total gross enrollment for all types of care except nursing-home care. Enrollment in individual policies was substantial for hospital and surgical care but represented only a fraction of group coverage for all other services. Blue Cross-Blue Shield claimed 28–40 percent of the enrollment for all services except dental care (8 percent) and nursing-home care (57 percent). Independent plans had only 4 percent of the market for hospital care and drugs, 6–10 percent for physicians' services, and 40 percent for dental care. The distribution pattern was about the same for enrollment of persons under age 65, but Blue Cross-Blue Shield dominated the market with respect to enrollments of persons over age 65, except in the area of drugs, dental care, and private-duty nursing.

### Historical Data

For all ages, insurance coverage for hospital and surgical care—in terms of total enrollments

by type of insurer and the net number of persons and percentage of population covered from 1940 to the present—is detailed in tables 6 and 7. Blue Cross-Blue Shield enrollment rose 4 percent in 1973. In the previous 7 years, the annual gain was 3–5 percent, except in 1971 when the increase dropped to 1 percent for hospital care and 2 percent for surgical care. Insurance company individual policies continued to grow at a faster rate than group coverage—6 percent for hospital insurance and 8 percent for surgical services, compared with a 1–2-percent gain in group policies.

In 1973, HIAA again revised downward its estimates of net coverage for 1965–72 to reflect more current information with respect to the extent of duplicate coverage and to take into account revised estimates for nonreporting companies. The remaining several percentage points difference between HIAA net estimates and estimates based on the household surveys probably result from a combination of overreporting by health insurance organizations and underreporting in the household surveys. Thus, gross enrollments for hospital and surgical care, as estimated by HIAA, have been running 15–23 percent above HIAA's net in the 10 years before 1973, and the household interview estimates have ranged from 28 percent to 41 percent above the National Center for Health Statistics (NCHS) net for hospital care and from 20 percent to 31 percent above net for surgical benefits.

TABLE 6.—Hospital benefits: Gross enrollment under private health insurance plans for persons of all ages and estimates of the net number of different persons covered, by type of plan, 1940-73

[In thousands]

End of year	Gross enrollments												Net number of different persons covered, as estimated by—				Gross enrollment as percent of net, estimated by—	
	Total	Blue Cross-Blue Shield			Insurance companies			Independent plans					Household surveys <sup>1</sup>		HIAA		Household surveys	HIAA
		Total	Blue Cross	Blue Shield	Total	Group policies	Individual policies	Total	Community	Employer-employment	Medical society	Private group clinic	Number	Percent of civilian population	Number <sup>2</sup>	Percent of civilian population		
1940	12,022	6,072	6,012	60	3,700	2,500	1,200	2,250	140	1,560	110	440			12,312	9 3		97 6
1945	32,135	18,961	18,881	80	10,504	7,804	2,700	2,670	420	1,660	200	390			32,068	24 0		100 2
1950	81,891	37,645	37,445	210	39,601	22,305	17,296	4,445	1,445	2,280	500	220			76,639	50 7		106 6
1955	118,629	48,924	47,719	1,205	63,160	39,029	24,131	6,546	2,920	3,220	360	45			105,452	64 1		112 5
1960	148,863	57,464	55,938	1,526	85,405	55,218	30,187	5,994	1,604	4,000	340	50			130,007	72 3		114 5
1961	152,799	57,960	56,489	1,471	87,737	56,920	30,817	7,102	1,851	4,850	344	57			133,876	73 4		114 1
1962	157,944	59,618	58,133	1,485	91,389	58,949	32,440	6,937	1,830	4,703	344	60	129,800	70 0	138,045	74 5	122 2	114 4
1963	163,997	60,698	59,141	1,557	96,134	62,424	33,710	7,165	1,954	4,814	344	60	126,047	67 0	142,775	75 8	131 0	114 9
1964	168,154	62,429	60,478	1,951	98,885	64,026	34,859	6,840	1,859	4,785	8	188			146,071	76 6		115 1
1965	173,243	63,662	61,651	2,012	102,597	66,490	36,107	6,984	1,964	4,971	8	51			148,826	77 1		116 4
1966	178,537	65,638	63,408	2,230	106,266	68,933	37,333	6,633	1,964	4,618		51			153,130	78 7		116 6
1967	183,866	67,513	65,188	2,325	109,303	72,679	38,624	7,050	2,300	4,700		50	145,454	73 9	167,831	80 2	127 8	116 5
1968	191,514	70,510	67,958	2,552	113,727	75,363	38,364	7,277	2,507	4,749		20	150,888	75 9	164,276	82 7	128 3	116 6
1969	200,338	73,211	70,620	2,591	119,425	79,360	40,065	7,702	2,672	5,000		30			167,858	83 5		119 3
1970	207,558	75,464	72,942	2,522	123,963	81,955	42,008	8,131	2,900	5,200		31	154,063	75 9	172,306	84 9	136 2	120 5
1971	211,940	76,349	74,383	1,966	127,046	82,094	44,952	8,545	3,100	5,400		45			175,800	85 6		120 6
1972	218,815	78,605	76,322	2,283	131,220	83,001	48,219	8,990	3,370	5,560		60	155,253	74 9	178,417	86 1	140 9	122 6
1973	225,048	81,641	79,395	2,146	134,338	83,459	50,879	9,169	3,538	5,491		140	*158,475	75 8	182,079	87 1	142 0	123 6

<sup>1</sup> Number estimated by applying percentages to total civilian population. Percentages projected to end of year and rounded for 1962 and 1973.  
<sup>2</sup> Estimate exceeds gross enrollment for early years because HIAA data include estimated enrollment of college and university health services. Esti-

mates for 1965 and later years have been revised.  
<sup>3</sup> Estimated by applying HIAA percentage increase in net enrollment from 1972 to 1973 to the NCHS figure for 1972.

TABLE 7.—Surgical benefits. Gross enrollment under private health insurance plans for persons of all ages and estimates of the net number of different persons covered, by type of plan, 1940-73

[Numbers in thousands]

End of year	Gross enrollments												Net number of different persons covered, as estimated by—				Gross enrollment as percent of net, estimated by—	
	Total	Blue Cross-Blue Shield			Insurance companies			Independent plans					Household surveys <sup>1</sup>		HIAA		Household surveys	HIAA
		Total	Blue Cross	Blue Shield	Total	Group policies	Individual policies	Total	Community	Employer-employment	Medical society	Private group clinic	Number	Percent of civilian population	Number <sup>2</sup>	Percent of civilian population		
1940	4,790	260		260	2,280	1,430	850	2,250	200	1,490	110	460			5,350	4 1		89 5
1945	12,092	2,335	127	2,208	7,337	5,537	1,800	2,420	350	1,460	200	410			12,800	9 6		93 8
1950	55,950	17,253	1,151	16,102	34,937	21,219	13,718	3,760	940	1,950	600	270			64,158	35 8		100 3
1955	101,819	37,395	3,194	34,201	58,494	39,725	18,769	6,930	2,130	3,200	430	170			88,856	54 0		114 6
1960	134,118	48,266	3,773	44,493	78,516	55,504	23,012	7,336	2,760	4,020	346	210			117,304	65 2		114 3
1961	139,988	49,374	3,048	46,326	82,120	57,059	25,061	8,494	3,026	4,891	346	231	116,788	64 0	122,644	67 2	120 0	114 1
1962	143,989	50,876	2,814	48,062	84,826	59,069	25,757	8,287	3,003	4,695	346	243	120,528	65 0	126,376	68 2	119 8	113 9
1963	150,361	52,371	2,740	49,631	89,382	61,954	27,938	8,608	3,206	4,806	346	250			131,152	69 7		114 6
1964	154,117	54,473	3,222	51,251	91,347	63,359	27,988	8,297	3,111	4,968	10	208			134,440	70 5		114 6
1965	160,460	56,330	3,660	52,669	95,446	65,539	29,907	8,684	3,400	5,068	10	206			138,224	71 6		116 1
1966	164,380	57,916	3,417	54,499	98,139	68,169	29,970	8,325	3,526	4,601		198			142,038	73 0		115 7
1967	170,486	60,443	3,416	57,017	101,473	72,098	29,375	8,580	3,900	4,500		180	142,082	72 2	147,435	74 9	121 1	115 6
1968	175,978	63,279	3,464	59,815	103,947	75,102	28,845	8,752	4,132	4,476		143	148,082	74 5	152,638	76 8	120 0	115 3
1969	185,239	66,595	3,629	62,966	108,694	78,932	29,762	9,950	4,500	5,300		150			157,205	78 2		117 8
1970	192,078	69,110	3,874	65,236	112,436	81,620	30,816	10,532	4,900	5,500		132	150,001	73 9	161,240	79 4	129 3	119 1
1971	194,642	70,395	3,831	66,564	113,387	81,873	31,514	10,860	5,100	5,630		130			163,060	79 4		119 4
1972	199,896	72,433	4,020	68,413	115,973	82,742	33,231	11,490	5,350	6,000		140	162,651	73 0	164,815	79 5	130 9	121 3
1973	207,124	75,136	4,098	71,038	119,856	84,026	35,830	12,132	5,930	6,057		145	*156,913	75 1	169,416	81 1	132 0	122 3

<sup>1</sup> See footnote 1, table 6.

<sup>2</sup> See footnote 2, table 6.

<sup>3</sup> See footnote 3, table 6.

## Household Interview Surveys

The net number of different persons and the percentage of population covered, for persons under age 65 and for persons aged 65 and older, are presented in table 8. The estimates are based on household interview surveys conducted by the NCHS in 1962, 1967, 1970, and 1972 for hospital care and surgical services, and in 1970 and 1972 for physicians' visits in home and office. Figures for 1973 are ORS projections of NCHS 1972 findings.

Data with respect to those aged 65 and over are significant in that they show a sharp drop in private insurance coverage in the first full year of Medicare but a steadily rising number and percentage of that age group buying health insurance since that period. As noted earlier, private insurance plans available to those aged 65 and older are designed primarily to complement the Medicare program by filling the gaps—deductibles, coinsurance payments, and in some instances services not paid for by Medicare. Other plans, however, provide flat weekly or monthly payments to the aged—only if they are hospitalized—to be used by the insured according to his financial needs.

### Benefit Structure

The benefit structure of private health insurance continued to broaden in 1973. As table 9 shows, the net coverage is expanding steadily in the nonbasic type of benefits—drugs, dental care, nursing services, X-ray and laboratory examinations—having more than doubled for all ages in the past 11 years in every one of these categories. Dental insurance increased 21 times; nursing-home care covered 14 times as many persons. For persons who are under age 65, the expansion into nonhospital, nonsurgical benefits reflects primarily group coverage of workers where unions have negotiated comprehensive and supplementary major medical insurance plans, extended-benefits plans, and supplementary major medical plans by Blue Cross-Blue Shield, and comprehensive group-practice prepayment plans. A good portion of the expansion in dental insurance, however, can be claimed by the independent dental service corporations, which have grown rapidly in the past several years.

TABLE 8.—Benefits for hospital care and physicians' services: Net number of different persons covered, by age, as estimated by household surveys, 1962-73

[Numbers in thousands]

Year	Hospital care		Physicians' services			
			Surgical services		Office and home visits	
	Number	Percent of civilian population	Number	Percent of civilian population	Number	Percent of civilian population
Under age 65						
1962.....	120,220	72.3	113,569	68.3	-----	-----
1967.....	136,907	77.0	133,706	75.2	-----	-----
1968.....	141,572	78.9	139,061	77.9	-----	-----
1970.....	143,611	78.6	140,505	78.5	64,314	35.2
1972.....	143,309	77.0	141,448	76.0	63,652	34.2
1973.....	146,089	78.0	145,352	77.6	65,880	35.2
Aged 65 and over						
1962.....	9,125	54.1	7,792	46.2	-----	-----
1967.....	8,547	45.0	8,376	44.1	-----	-----
1970.....	10,452	51.4	9,496	46.7	3,518	17.3
1972.....	11,944	56.4	11,203	52.9	4,045	19.1
1973.....	12,386	57.4	11,561	53.6	4,158	19.3

<sup>1</sup> Estimated by applying HIAA percentage increase in net enrollment from 1972 to 1973 to NCHS figures for 1972

<sup>2</sup> In the Current Medicare Survey of the Social Security Administration, 59.9 percent of those enrolled for supplementary medical insurance were reported as having private hospital insurance, 50.4 percent as having surgical insurance as of Jan. 1, 1974

Source: Data reported by various National Center for Health Statistics household surveys conducted during 1962-72

### Major Medical Coverage

Table 10 reveals, for persons of all ages, the annual growth since 1960 in the net number of different persons under major medical plans by insurance companies and in the total Blue Cross-Blue Shield enrollment for such coverage. Insurance policies are written as supplementary major medical or comprehensive group policies, with the ratio more than 2 to 1 in 1973. Coverage of Blue Cross-Blue Shield plans written as major medical plans supplementing a basic policy outnumbered comprehensive extended-benefit plans coverage 10 to 1.

In 1973, almost 83 million different persons were covered by insurance companies under major medical plans; Blue Cross-Blue Shield plans covered about 37 million persons. About 10 million more persons were covered in 1973 for major medical expense than had such insurance in 1972; 73 percent of the expansion occurred in Blue Cross-Blue Shield plans. Although insurance companies continued to write more than twice as much major medical coverage as the Blue Cross and Blue Shield plans, the commercial carriers' share of

TABLE 9—Estimates of the net number of different persons under private health insurance plans and percent of population covered, by age and specified type of care, 1962-73

End of year	Hospital care	Physicians' services				Dental care	Prescribed drugs (out-of-hospital)	Private-duty nursing	Visiting-nurse service	Nursing-home care
		Surgical services	In-hospital visits	X-ray and laboratory examinations	Office and home visits					
All ages										
Number (in thousands)										
1962	129,800	120,528	(1)	65,671	(1)	1,006	47,907	46,143	43,203	4,975
1965	(1)	(1)	(1)	79,500	(1)	3,100	53,200	56,000	60,100	9,900
1966	(1)	(1)	(1)	90,000	(1)	4,227	65,544	68,722	79,004	17,814
1967	145,454	142,082	(1)	92,480	(1)	4,679	71,201	76,080	81,771	18,754
1968	(1)	(1)	128,174	97,703	(1)	5,821	79,280	83,485	90,523	19,046
1969	(1)	(1)	133,914	125,002	(1)	8,510	89,805	91,211	100,343	28,044
1970	154,263	150,001	145,589	142,441	67,832	12,210	100,966	100,235	106,882	32,392
1971	(1)	(1)	148,514	145,207	(1)	15,348	106,985	104,730	110,215	38,636
1972	155,253	152,651	149,734	149,444	67,697	17,904	111,374	108,959	115,904	45,460
1973	158,475	156,913	153,461	152,797	70,038	21,626	124,971	118,805	122,688	69,152
Percent of civilian population										
1962	70 0	65 0	(1)	35 0	(1)	0 5	26 0	25 0	23 0	3 0
1965	(1)	(1)	(1)	41 2	(1)	1 6	27 6	29 0	31 2	5 1
1966	(1)	(1)	(1)	48 0	(1)	2 2	33 7	35 0	40 6	9 2
1967	(1) 73 9	(1) 72 2	(1)	47 0	(1)	2 4	36 2	38 7	41 6	9 2
1968	(1)	(1)	64 5	49 2	(1)	2 9	39 9	42 0	45 5	9 6
1969	(1)	(1)	66 6	62 2	(1)	4 2	44 7	45 4	49 9	14 0
1970	(1) 75 9	(1) 73 9	71 7	70 2	33 4	6 0	49 7	49 4	52 6	16 0
1971	(1)	(1)	72 3	70 7	(1)	7 5	52 1	51 0	53 6	18 8
1972	(1) 74 9	(1) 73 6	72 2	72 1	(1)	8 6	53 7	52 6	55 9	21 9
1973	(1) 75 8	(1) 75 1	73 4	73 1	(1)	33 5	59 8	56 9	58 7	33 1
Under age 65										
Number (in thousands)										
1967	136,907	133,706	116,656	88,926	(1)	4,596	69,363	73,857	79,302	15,873
1968	141,572	139,061	121,104	93,714	(1)	5,719	76,748	81,309	87,697	16,921
1969	(1)	(1)	126,190	117,472	(1)	8,385	86,880	88,024	96,885	23,962
1970	143,611	140,505	137,229	134,839	64,314	12,079	97,736	97,017	103,064	27,371
1971	(1)	(1)	140,685	137,463	(1)	15,155	103,672	101,450	106,190	33,434
1972	143,309	141,448	141,579	141,694	63,652	17,608	107,855	105,518	111,416	39,987
1973	140,089	145,352	144,592	143,995	65,880	21,392	120,987	115,175	117,872	62,621
Percent of civilian population										
1967	77 0	75 2	65 6	50 0	(1)	2 6	39 0	41 5	44 6	8 9
1968	(1) 78 9	(1) 77 5	67 5	52 2	(1)	3 2	42 8	45 3	48 9	9 4
1969	(1)	(1)	69 6	64 8	(1)	4 6	47 9	48 5	53 4	13 2
1970	(1) 78 6	(1) 76 9	75 1	73 8	35 2	6 6	53 5	53 1	56 4	15 4
1971	(1)	(1)	76 2	74 4	(1)	8 2	56 1	54 9	57 5	18 1
1972	(1) 77 0	(1) 76 0	76 1	76 1	(1)	9 5	58 0	56 7	59 9	21 5
1973	(1) 78 0	(1) 77 6	77 2	76 9	35 2	11 4	64 6	61 5	62 9	33 4
Aged 65 and over										
Number (in thousands)										
1967	8,547	8,376	5,905	3,554	(1)	83	1,838	2,223	2,470	2,881
1968	(1)	(1)	7,070	3,989	(1)	102	2,532	2,176	2,826	2,125
1969	(1)	(1)	7,724	7,530	(1)	125	2,925	3,187	3,458	4,082
1970	10,452	9,496	8,360	7,602	3,518	131	3,230	3,218	3,818	5,021
1971	(1)	(1)	7,829	7,744	(1)	193	3,313	3,280	4,025	5,202
1972	11,944	11,203	8,155	7,750	4,045	296	3,519	3,441	4,488	5,473
1973	12,386	11,561	8,869	8,802	4,158	234	3,984	3,630	4,816	6,531
Percent of civilian population										
1967	45 0	44 1	31 1	18 7	(1)	0 4	9 7	11 7	13 0	15 2
1968	(1)	(1)	36 6	20 6	(1)	5	13 1	11 3	14 6	11 0
1969	(1)	(1)	39 3	38 3	(1)	.6	14 9	16 2	17 6	20 8
1970	(1) 51 4	(1) 46 7	41 1	37 4	17 3	6	15 9	15 8	18 8	24 7
1971	(1)	(1)	37 7	37 3	(1)	9	15 9	15 8	19 4	26 0
1972	(1) 56 4	(1) 52 9	38 5	36 6	(1)	1 4	16 6	16 3	21 2	25 8
1973	(1) 57 4	(1) 53 6	41 1	40 8	(1)	1 1	18 5	16 8	22 3	30 3

<sup>1</sup> Data not available

the market has been slowly diminishing since 1968 when they held almost four times as much.

### Enrollment in Group-Practice Prepayment Plans

Enrollment in independent group-practice prepayment plans for the period 1953-73 is shown

in table 11. Enrollment for hospital care rose 4.8 percent in 1973; the growth rate for this service had averaged 5.2 percent in the previous 9 years. Enrollment for physicians' services showed the same trend. The rate of increase in coverage for office, clinic, and health center visits slowed from an average of 3.9 percent in the period 1953-72 to 3.4 percent in 1973. For in-hospital physicians'



visits the corresponding rates were 3.8 percent and 3.2 percent, respectively. For surgical care, enrollment slowed from a 9-year average of 4.4 percent to 3.6 percent in 1973.

It remains to be seen whether the Federal program for research, development, evaluation, and technical assistance to health maintenance organizations (HMO's) will have a significant impact on the growth of longstanding independent group-practice prepayment plans. The experimental HMO development program<sup>2</sup> initiated by the President's 1971 Health Message was brought to a close with the passage of the Health Maintenance Organization Act of 1973, which instituted a 5-year \$375 million program for the assistance of HMO's.<sup>3</sup> As of the end of 1973, Blue Cross-Blue Shield plans reported 42 new group-practice programs. A total of 56 of their member plans were involved in various stages of alternative delivery-systems activity.<sup>4</sup> Fifty-two insurance companies were known to have some degree of active involvement or exploratory interest in 74 HMO developments. Nineteen of the companies were participating in 22 operational HMO's representing 23 communities scattered over 25 States.<sup>5</sup> According to a general survey of 99 HMO's conducted in 1973 by Interstudy,<sup>6</sup> private insurers (Blue Cross-Blue Shield plans and insurance companies) sponsored or were one of several sponsors for 27 of the 77 reporting HMO's delivering prepaid health care in 1973.

The HMO's are designed to provide enrolled participants—either directly or through arrangements with others—comprehensive, quality-assured, and economical health care services (including preventive care) in return for a predetermined periodic payment. They afford the opportunity for the Blue Cross-Blue Shield plans and for the commercial carriers to supplement their traditional forms of health insur-

ance and offer their group policyholders a dual choice option for their employees.

This article includes the HMO's whose major sponsors are consumer groups, physicians' groups, hospitals, labor unions, medical schools, and private corporations—where such sponsors are also at major financial risk for prepaid care—in the "independent plans" category with other non-insured, non-Blue Cross-Blue Shield plans that either do not provide the wide range of health services required of HMO's and/or are closed plans (employer-employee-union plans, for example, that serve only union members and their families). HMO's with sponsorship and risk and surplus sharing primarily by Blue Cross-Blue Shield or insurance companies are included in the statistics for the latter organizations.

## FINANCIAL EXPERIENCE

The discussion of the financial experience of private health insurance organizations in 1973 that follows will give the reader background data for an understanding and evaluation of the operating experience of the various insurers. Data are provided on the business (premium and subscription income), benefit expense (claims), operating expense, and overall operating results of the three principal types of insurers—the commercial carriers (for group and individual business), Blue Cross-Blue Shield plans, and the independent plans. These data are drawn together to show some comparisons of operating results—the proportion of premiums returned in benefit payments to the insured, investment income, operating costs, percentage of premium income retained for operating expense, additions to reserves, and profits. Trends in the distribution and growth of premium income and benefit expenditures by type of insurer and by specified type of care are reported, as well as changes in operating-expense ratios over the past 12 years.

In 1973, private health insurance organizations collected \$24.5 billion in premiums and subscription charges from their policyholders and subscribers; \$21.6 billion or 88 percent was returned in claims and benefits (table 12). Operating expenses amounted to about \$3½ billion or 13.7 percent of premium income. The net underwriting loss was 1.8 percent of premium income, a loss

<sup>2</sup> *Health Maintenance Organization Program Status Report, February 1, 1974*, Bureau of Community Health Services, Health Services Administration, 1974.

<sup>3</sup> Marjorie Smith Mueller, "Health Maintenance Organization Act of 1973," *Social Security Bulletin*, March 1974.

<sup>4</sup> J. Sonnenfeld, *Blue Cross and Blue Shield Activity in Alternative Delivery Systems*, Blue Cross Association, January 1974.

<sup>5</sup> David A. Descoteau, *HMO's and the Private Health Insurance Sector*, Health Insurance Association of America, 1974.

<sup>6</sup> *HMO's in 1973, A National Survey*, Health Policy Division of Interstudy, February 1974.

TABLE 10.—Number of persons covered under major medical policies of insurance companies and under supplementary major medical and comprehensive extended-benefits contracts of Blue Cross-Blue Shield plans, 1960-73

[In thousands]

End of year	Insurance companies				Blue Cross-Blue Shield plans <sup>1</sup>			
	Total	Group policies			Individual policies	Total	Supplementary major medical	Comprehensive extended benefit
		Net total	Supplementary	Comprehensive				
1960.....	24,375	22,535	17,285	8,323	1,840	3,713	3,020	693
1961.....	30,993	28,229	23,525	9,686	2,764	5,059	4,015	1,044
1962.....	35,552	32,091	27,297	10,457	3,461	7,501	5,068	1,736
1963.....	40,184	36,107	30,978	11,501	4,077	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
1964.....	45,255	40,301	35,380	12,033	4,954	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
1965.....	50,656	45,374	40,646	12,741	5,282	<sup>3</sup> 14,600	( <sup>2</sup> )	( <sup>2</sup> )
1966.....	55,276	49,922	44,821	13,911	5,354	14,352	10,409	3,943
1967.....	60,548	55,150	49,581	15,301	5,398	16,279	12,408	3,871
1968.....	65,056	59,270	53,010	16,719	5,786	17,807	14,078	3,729
1969.....	70,361	63,966	56,330	18,924	6,395	20,328	16,666	3,662
1970.....	73,506	67,066	59,011	19,890	6,440	24,905	21,658	3,247
1971.....	76,539	70,020	60,654	21,723	6,519	26,780	23,429	3,351
1972.....	79,786	71,876	61,608	22,952	7,910	30,082	26,879	3,203
1973.....	82,485	74,060	62,687	24,442	8,425	37,328	33,947	3,381

<sup>1</sup> Comparable data not available for earlier years, before 1965, data shown are for Blue Cross plans only, beginning 1965, data jointly developed by Blue Cross Association and National Association of Blue Shield Plans on unduplicated number of persons covered.

<sup>2</sup> Data not available

<sup>3</sup> Data for Blue Cross plans plus an estimated 1,600,000 in Blue Shield plans not affiliated with Blue Cross

made up for the most part in income from investment of reserves. Because total income figures for the commercial carriers with respect to their health and medical expense business are not available, the net income for all private health insurance organizations cannot be determined.

Insurance companies had a premium income of \$11.7 billion—only about a half-billion more than that of Blue Cross-Blue Shield plans, but six times that of the independent plans. The ratio of claims paid to premiums for group and individual business combined was 84.9 percent, compared with 90.5 percent for Blue Cross-Blue Shield group and nongroup plans. The independents had the highest claims ratio—94.4 percent. Insurance company group policies returned almost 93 cents on the dollar to policyholders. Losses indemnified by individual policies—accounting for about a fourth of the health insurance business of the commercial carriers—amounted to only 59 cents of the premium dollar. Separate financial data are not available for nongroup business of the Blue Cross-Blue Shield and independent plans.

The experience of individual business of insurance companies also heavily affected the overall operating expense of the companies. The \$1.3 billion operating expense of individual business represented more than half the total operating expense of the carriers and accounted for 47 percent of the premium dollar, resulting in an overall operating expense ratio for all business of 20.9

percent of premium income. The ratio for group business was 13.0 percent. One cannot measure these ratios for the companies against the ratios of the other insurers—5.2 percent by Blue Cross plans, 11.5 percent by Blue Shield plans, and 7.6 percent by the independent plans—without taking into account a number of factors.

Insurance companies usually sell a package of benefits including both hospital and medical expenses as well as major medical expenses. The operating expense ratio on surgical-medical coverage is substantially higher than the ratio for hospital coverage mainly because of the lower premium, the larger number of claims per enrollee, the smaller amount per claim, and the greater complexity of administering and paying surgical-medical claims than that for hospital claims. Major medical insurance is regarded as the most costly type of coverage to administer. The resulting higher administrative cost of the companies is further augmented by higher acquisition costs and selling expenses than those incurred by the other plans and the payment of Federal income taxes and State premium taxes and licenses and fees not required of other private health insurance organizations. These higher expenses are offset to some extent in the case of group insurance contracts covering large groups of employees, where virtually all the claims administration work is performed by the employer or welfare fund.

These dissimilarities in operating costs, along

Table 11.—Private health insurance enrollment under independent group practice prepayment plans, by specified type of care, 1953–73

[In thousands]

Year	Hospital care	Physicians' services			Dental care	Drugs
		Surgical services	In-hospital visits	Office, clinic, or health center		
1953.....	1,802	2,410	2,507	2,853	452	(1)
1956.....	2,428	3,177	3,399	3,395	248	(1)
1959.....	2,526	3,280	3,400	3,694	318	(1)
1961.....	2,586	3,484	3,643	3,643	398	518
1964.....	2,695	3,504	3,176	3,844	438	889
1966.....	2,771	3,763	3,430	4,158	(1)	(1)
1967.....	3,060	4,130	3,760	4,480	(1)	(1)
1968.....	3,043	4,051	3,730	4,404	518	1,382
1969.....	3,730	4,750	4,210	5,050	800	1,720
1970.....	4,131	5,032	4,532	5,432	910	2,121
1971.....	4,415	5,230	4,880	5,630	965	2,321
1972.....	4,679	5,473	5,123	5,865	977	2,543
1973.....	4,905	5,671	5,288	6,066	1,001	2,741

<sup>1</sup> Data not available

<sup>2</sup> Excludes those enrolled under plans that sell drugs to members at reduced rates

with the lack of homogeneity in other health insurance services—over and above pure health insurance—provided the individual by the commercial insurers, Blue Cross-Blue Shield, and other health organizations make it difficult to use ratios for comparing efficiency in delivering health insurance.<sup>7</sup>

Insurance companies showed a net underwriting loss in 1973. Their claims and operating expense exceeded their premium income by \$682 million or 5.8 percent of premium income. In the previous year their claims and operating expense ran 5.0 percent above premium income.

Blue Cross plans showed a net underwriting gain of 3.4 percent of premium income, up from 2.8 percent in 1972. Blue Shield plans, however, experienced only a slight gain in subscription income over total expenses—0.4 percent of premium income, compared with 1.5 percent in 1972.

Independent plans had a net underwriting loss—their total expenses amounted to 2 percent less than subscription income. In 1972 they had experienced a slight underwriting gain.

In 1973, subscription and premium income for all private health insurance organizations rose 9.7 percent, and claims went up 10.7 percent. Operating expenses dropped only slightly. The result was a net underwriting loss of \$437.5 million or 1.8 percent of premium income. Benefits in-

curred rose faster than premium income for all insurers but the Blue Cross-Blue Shield plans. In 1972, for all private health insurance organizations, there was a gap of 3–4 percentage points between benefits and premium income.

Blue Cross-Blue Shield plans were the only insurers that did not experience a net underwriting loss. Their gain of \$280 million above expenses, plus their investment income from reserves, resulted in a net income of \$496 million—4.4 percent of total income. The favorable underwriting experience of these plans, in comparison with the other insurers, was a reflection of their lower operating expense ratio and the fact that they were the only insurers whose premium income rose faster than benefits.

Group business of insurance companies was fairly stabilized. Its claims and operating expense ratios were only slightly lower in 1973 than in 1972; as a result its net underwriting loss ratio dropped only about 1 percentage point. The underwriting experience of individual business changed sharply. Premium income rose 5 percent in 1973, and claims increased 17 percent. Fifty-nine cents of the premium dollar—compared with 53 cents in 1972—was paid out in benefits. Operating expense remained at 47 percent of premium income. As a result, the underwriting results for individual business shifted from a slight gain in 1972 to a loss of 5.6 percent of premium income in 1973.

Independent health insurance plans provided greater returns on the subscriber's dollar than they did in 1972. Community plans paid out 97 cents on the dollar in benefits; employer-employee-union plans spent 95 cents. In 1972 the ratios were 92 cents and 94 cents, respectively. Their operating expense ratios remained about the same. Because of these factors, plus a slower rise in subscription income than in benefits, they showed a net underwriting loss of 2 percent of subscription income. Investment income pushed their net income to 4 percent of total income.

To get a realistic picture of the overall financial results of the commercial insurers, one needs to know the net gain from operations. Unfortunately, separate figures for the commercial carriers are not available for the two segments of business—medical and health expense insurance with which this article deals—and wage replacement insurance. The reader will, however, get

<sup>7</sup> Ronald Vogel and Roger Blair, *The Costs of Administering Health Insurance: An Econometric Analysis*, Office of Research and Statistics (forthcoming).

TABLE 12.—Financial experience of private health insurance organizations, 1973

[Amounts in millions]

Type of plan	Total income	Subscription or premium income	Claims expense		Operating expense		Net underwriting gain		Net income	
			Amount	Percent of premium income	Amount	Percent of premium income	Amount	Percent of premium income	Amount	Percent of total income
Total.....	(1)	\$24,532 3	\$21,614 1	88 1	\$3,355 7	13 7	-\$437 5	-1 8	(1)	(1)
Blue Cross-Blue Shield.....	\$11,275 5	11,059 1	10,004 2	90 5	775 3	7 0	279 6	2 5	\$496 0	4 4
Blue Cross.....	8,013 4	7,862 1	7,187 3	91 4	407 7	5 2	267 1	3 4	418 4	5 2
Blue Shield.....	3,262 1	3,197 0	2,816 9	88 1	367 6	11 5	12 5	4	77 6	2 4
Insurance companies.....	(1)	11,694 0	9,930 0	84 9	2,446 4	20 9	-682 4	-5 8	(1)	(1)
Group policies.....	(1)	8,970 0	8,333 0	92 9	1,166 1	13 0	-529 1	-5 9	(1)	(1)
Individual policies.....	(1)	2,724 0	1,597 0	58 6	1,280 3	47 0	-153 3	-5 6	(1)	(1)
Independent plans.....	1,884 7	1,779 2	1,679 9	94 4	134 0	7 6	-34 7	-2 0	70 8	3 8
Community.....	737 0	706 0	684 0	96 9	47 0	6 7	-25 0	-3 6	6 0	8 8
Employer-employee-union.....	888 0	817 4	778 0	95 2	58 4	7 1	-19 0	-2 3	51 6	5 8
Private group clinic.....	26 8	25 8	17 7	68 6	3 8	14 7	4 3	16 7	5 3	19 8
Dental service corporation.....	232 9	230 0	200 2	87 0	24 8	10 8	5 0	2 2	7 9	3 4

<sup>1</sup> Data not available.

some indication of the true financial picture of the companies by examining the following figures

Item	Operating results <sup>1</sup>	
	Amount (in millions)	Percentage distribution
Income, total.....	\$9,009 1	100 0
Premiums and considerations.....	8,729 2	
Investment income.....	265 7	
Other income.....	14 2	
Benefit expense, total.....	7,202 2	80 0
Benefits.....	6,996 4	
Increases in reserves.....	180 2	
Transfers on account of group package policies and contracts.....	-48 7	
Other loss items.....	74 3	
Operating expense.....	1,442 1	16 0
Net gain before dividends <sup>2</sup> .....	364 8	
Dividends.....	117 1	1 3
Net gain after dividends and before income tax.....	247 7	
Income tax.....	91 0	1 0
Net gain after dividends and income tax.....	156 7	1 7
Aggregate reserves.....	2,196 4	

<sup>1</sup> Data are for both medical expense and loss of income insurance—group and individual business combined.

<sup>2</sup> Total income minus sum of total benefit expense plus operating expense.

Source "Liabilities, Surplus and Other Funds," page 3, and "Analysis of Operations, by Line of Business," page 5, *Annual Statements for the Year 1973*.

on loss of income and medical expense insurance business combined, for 17 leading commercial writers.<sup>8</sup> The figures show net gain after investment income and payment of Federal income taxes on such income.

<sup>8</sup> The 17 leading writers represented wrote more than half of all health insurance business (premiums earned less dividends) in 1973. The six leading writers of group business had each earned premiums of \$346 million or more; the six leading writers of individual business had earned premiums of \$70 million or more; the five leading writers of group and individual business combined had \$479 million or more of earned premiums.

### Total Premium and Subscription Income and Benefits

Of the total premium and subscription income of the industry, insurance companies received 48 percent, Blue Cross-Blue Shield plans 45 percent, and independent plans 7 percent (table 13). There was a very slight shift in the distribution of business toward Blue Cross-Blue Shield plans. The carriers' share of claims expense continued to be slightly smaller than their share of premium income; the converse was true with respect to Blue Cross-Blue Shield and independent community and employer-employee-union plans.

In 1973, for the first time in 19 years, insurance companies' share of claims expense ran slightly less than that of the Blue Cross-Blue Shield plans. Since 1948, insurance companies have consistently received the largest share of premium and subscription income. The group business share of benefit expense has been running about five times the share of individual business for the past 6 years.

### Benefit Expenditures and Types of Care

Sixty-two percent of benefits paid by private health insurance organizations were for hospital care and 31 percent were for physicians' services (table 14). Only 7 percent of total claims paid were for other types of care. The average consumer received only a small financial return from health insurance for dental care, drugs, nursing services, and other types of out-of-hospital care.

Blue Cross-Blue Shield plans paid out \$6.9

TABLE 13.—Percentage distribution of subscription or premium income and claims expense, by type of private health insurance organization, 1948-73

Year	Total	Blue Cross-Blue Shield plans			Insurance companies			Independent plans				
		Total	Blue Cross	Blue Shield	Total	Group policies	Individual policies	Total	Community	Employer-employee union	Private group clinic	Dental service corporation
Subscription or premium income												
1948.....	100 0	42 3	36 5	5 8	48 8	24 6	24 2	8 8	(1)	(1)	(1)	(1)
1950.....	100 0	44 4	33 8	10 6	46 8	25 8	21 1	8 7	(1)	(1)	(1)	(1)
1955.....	100 0	41 0	28 9	12 1	51 7	32 5	19 2	7 3	(1)	(1)	(1)	(1)
1960.....	100 0	42 5	30 4	12 1	51 8	36 0	15 8	5 7	2 3	3 2	0 2	(2)
1961.....	100 0	42 0	30 0	12 0	51 4	36 2	15 2	6 6	2 2	3 8	0 2	0 1
1962.....	100 0	42 1	29 9	12 2	51 4	36 5	14 9	6 5	2 2	3 8	.1	(2)
1963.....	100 0	42 2	30 3	11 9	51 4	36 2	15 2	6 4	2 3	3 6	.2	1
1964.....	100 0	42 1	30 0	12 1	51 8	36 7	15 1	6 1	2 2	3 7	1	.1
1965.....	100 0	41 7	29 9	11 8	52 2	36 6	15 6	6 1	2 2	3 7	1	1
1966.....	100 0	41 0	29 2	11 8	52 9	37 7	15 2	6 1	2 3	3 5	1	2
1967.....	100 0	41 0	29 1	11 9	52 8	38 5	14 3	6 2	2 5	3 3	1	3
1968.....	100 0	40 2	28 4	11 8	53 7	40 0	13 7	6 1	2 5	3 2	.1	3
1969.....	100 0	42 0	29 8	12 2	51 6	38 8	12 8	6 4	2 6	3 3	1	4
1970.....	100 0	42 9	30 0	12 9	50 9	39 4	11 5	6 2	2 6	3 1	.1	4
1971.....	100 0	44 7	31 7	13 0	48 8	36 8	12 0	6 5	2 7	3 3	1	4
1972.....	100 0	44 4	31 6	12 8	48 8	37 2	11 6	6 8	2 8	3 2	1	7
1973.....	100 0	45 1	32 1	13 0	47 7	36 6	11 1	7 2	2 9	3 3	1	9
Claims expense												
1948.....	100 0	50 8	44 4	6 4	37 6	24 4	13 2	11 6	(1)	(1)	(1)	(1)
1950.....	100 0	49 5	38 6	10 9	40 3	25 9	14 4	10 2	(1)	(1)	(1)	(1)
1955.....	100 0	45 2	32 8	12 4	46 5	33 8	12 7	8 3	(1)	(1)	(1)	(1)
1960.....	100 0	45 8	32 9	12 8	47 8	38 0	9 8	6 4	(1)	(1)	(1)	(1)
1961.....	100 0	45 4	32 8	12 6	47 5	38 1	9 4	7 1	(1)	(1)	(1)	(1)
1962.....	100 0	45 6	32 5	13 1	47 5	38 7	8 8	6 9	(1)	(1)	(1)	(1)
1963.....	100 0	45 6	32 2	12 4	47 7	38 3	9 5	6 7	(1)	(1)	(1)	(1)
1964.....	100 0	45 6	32 1	12 5	48 0	38 6	9 4	6 3	(1)	(1)	(1)	(1)
1965.....	100 0	44 8	32 7	12 1	48 9	39 1	9 8	6 3	2 3	3 8	0 1	0 1
1966.....	100 0	43 5	31 5	12 0	48 9	40 6	9 6	6 4	2 4	3 6	.1	2
1967.....	100 0	42 8	31 0	11 7	50 7	41 9	8 8	6 5	2 6	3 5	1	3
1968.....	100 0	42 7	31 1	11 6	51 0	42 7	8 3	6 3	2 6	3 3	1	3
1969.....	100 0	45 2	32 7	12 5	48 2	40 0	7 3	6 8	2 7	3 4	1	4
1970.....	100 0	44 9	31 9	13 0	48 6	41 3	7 3	6 5	2 7	3 4	1	3
1971.....	100 0	46 2	33 4	12 8	47 1	39 9	7 2	6 7	2 9	3 4	1	3
1972.....	100 0	46 1	33 3	12 8	46 7	39 7	7 0	7 2	2 9	3 5	1	7
1973.....	100 0	46 3	33 3	13 0	45 9	38 5	7 4	7 8	3 2	3 6	1	9

<sup>1</sup> Data not available.

<sup>2</sup> Less than 0.05 percent

billion in hospital benefits to their subscribers and \$2.8 billion for physicians' services. These benefits accounted for 96.4 percent of all their benefit expenditures. Their outlays for dental care and out-of-hospital drugs accounted for less than 2 percent of total benefits.

Ninety-two percent of all claims (\$9.1 billion) paid by the insurance companies were for hospital care and physicians' services. Their benefit payments for other types of care were mostly for dental care (2.5 percent), drugs (2.9 percent), and private-duty nursing (1.9 percent).

Independent plans spent a larger proportion of their total expenditures for dental care and prescribed drugs than did Blue Cross-Blue Shield plans and the insurance companies. They also spent relatively more for physicians' services—41 percent of all expenditures, compared with 33 percent by the carriers and 28 percent by Blue Cross-Blue Shield. The independent plans offer

a different set of services; they provide comprehensive medical and health care services outside the hospital, and thereby minimize the need for expensive hospitalization.

### Trends

Data are presented in table 15 on the premium income and benefit expenditures of private health insurance organizations from 1948 to 1973. The economic stabilization program continued to be a factor throughout 1973 in the slower rate of growth of both income and benefits. During the year, medical prices—which reflect in part both premiums paid by consumers and claims paid in their behalf—rose at an annual rate a little more than half that reported during the prefreeze period. In 1973, premium income slowed to a 9.7-percent increase; it had risen 14 percent in 1971 and in 1972, and in the previous 5 years it had

TABLE 14.—Benefit expenditures of private health insurance organizations, by specified type of care, 1973

Type of plan	Total	Hospital care	Physicians' services	Dental care	Prescribed drugs (out-of-hospital)	Private-duty nursing	Visiting-nurse service	Nursing-home care	Vision care	Other types of care
Amount (in millions)										
Total.....	\$21,614 1	\$13,339 2	\$6,774 9	\$519 8	\$528 0	\$197 8	\$6 4	\$17 2	\$10 4	\$220 4
Blue Cross-Blue Shield.....	10,004 2	6,855 8	2,795 0	23 0	159 3	13 2	6 4	16 4	2 8	132 3
Blue Cross.....	7,187 3	6,699 8	236 3	13 5	75 3	8 9	5 9	15 9	1 0	70 7
Blue Shield.....	2,816 9	156 0	2,498 7	9 5	84 0	4 3	.5	5	1 8	61 6
Insurance companies.....	9,930 0	5,849 7	3,290 1	249 0	290 0	183 5	(1)	(1)	(1)	67 6
Group policies.....	8,333 0	4,745 5	2,868 6	249 0	287 6	115 7	(1)	(1)	(1)	66 6
Individual policies.....	1,597 0	1,104 2	421 5	-----	2 4	67 8	(1)	(1)	(1)	1 1
Independent plans.....	1,679 9	633 7	689 8	247 8	78 7	1 1	(1)	8	7 6	20 4
Community.....	684 0	212 6	411 4	22 8	22 1	7	(1)	.2	5 6	8 7
Employer-employee-union.....	778 0	415 7	269 0	22 6	56 6	4	(1)	6	1 9	11 2
Private group clinic.....	17 7	5 5	9 4	2 2	-----	(1)	(1)	-----	1	5
Dental service corporation.....	200 2	-----	-----	200 2	-----	-----	-----	-----	-----	-----
Percentage distribution										
Total.....	100 0	61 7	31 3	2 4	2 4	0 9	(?)	0 1	0 1	1 0
Blue Cross-Blue Shield.....	100 0	68 5	27 9	.2	1 6	1	0 1	2	(?)	1 3
Blue Cross.....	100 0	93 2	4 1	2	1 0	1	1	2	(?)	1 0
Blue Shield.....	100 0	5 5	88 7	3	3 0	2	(?)	(?)	1	2 2
Insurance companies.....	100 0	58 9	33 1	2 5	2 9	1 9	(?)	(?)	(?)	.7
Group policies.....	100 0	56 9	34 4	3 0	3 5	1 4	(?)	(?)	(?)	8
Individual policies.....	100 0	69 1	26 4	-----	2	4 2	(?)	(?)	(?)	.1
Independent plans.....	100 0	37 7	41 1	14 7	4 7	1	(?)	1	4	1 2
Community.....	100 0	31 1	60 1	3 3	3 2	1	(?)	(?)	8	1 3
Employer-employee-union.....	100 0	53 4	34 6	2 9	7 3	1	(?)	1	2	1 4
Private group clinic.....	100 0	31 1	53 1	12 4	-----	(1)	(1)	-----	6	2 8
Dental service corporation.....	100 0	-----	-----	100 0	-----	-----	-----	-----	-----	-----

<sup>1</sup> Included in "other types of care"

<sup>2</sup> Less than 0.05 percent

increased at an average annual rate of 11 percent. Insurance companies showed the lowest rate of increase in 1973—and the biggest drop from the previous year—7.2 percent, compared with 13.6 percent in 1972. Blue Cross-Blue Shield subscription income rose 11.4 percent, compared with an increase of almost 13 percent in 1972. Subscribers paid independent plans almost 16 percent more than they did in 1972, but the rate of increase was more than 21 percent.

Benefit expenditures for all insurers remained fairly stable—they rose 10.7 percent, compared with 10 percent in 1972. The rate of increase had been 12 percent in 1971 and 20 percent in 1970. Insurance companies incurred 8.9 percent more in claims than in 1972. Blue Cross-Blue Shield benefits were 11 percent higher than in 1972. Thus, the gap between the rates of increase in benefits and insurance premiums and subscriptions narrowed in 1973. Benefit expenditures resumed their pre-freeze trend. They rose a little faster than premium income, although they did not approach the 20 percent/17 percent ratio of 1970.

The financial experience of Blue Cross and Blue Shield plans is shown in tables 16 and 17. The data, based on reports of the 74 Blue Cross and 70 Blue Shield plans, exclude data for the in-

surance companies owned by the associations. The data relate to the financial experience of the individual Blue Cross and Blue Shield plans and are not adjusted to eliminate the duplication with respect to the six joint plans that report identical data to the two national organizations.

A stabilized operating expense ratio and claims expense ratio in 1973 brought the net income of Blue Cross plans up to \$438 million from \$320 million in 1972. Reserves were also increased substantially (40 percent)—from \$1.05 billion to \$1.46 billion.

Blue Shield plans paid a slightly higher return in benefits than in the previous year. The operating expense ratio remained the same as in 1972. Subscription income rose 15 percent. Thus, the Blue Shield plans experienced only a slight underwriting gain. Their net income (including investment income) dropped 20 percent from the previous year.

Table 18 shows the distribution of benefit expenditures by all private insurers for hospital care, physicians' services, and other types of care. The proportion of benefits for nonhospital, non-physician services continued its slow but steady increase—6.9 percent in 1973, compared with 6.1

percent in 1972 and less than 3 percent in earlier years—an indication that insurers are gradually broadening and deepening their coverage for health care services. The slowly decreasing share of expenditures for hospital care that has been running at least twice the share spent for physicians' services reflects added ambulatory services recently offered by the insurers.

### Operating Expense

As the data below indicate, operating expense as percent of premium income for all insurers decreased slightly in 1973. Blue Cross plans have

Year	Operating expense as percent of premium income									
	Total	Blue Cross-Blue Shield <sup>1</sup>			Insurance companies			Independent plans		
		Total	Blue Cross	Blue Shield	Total	Group	Individual	Total	Community	Employer-employee-union
1961.....	(*)	(*)	(*)	(*)	23.2	13.4	46.5	(*)	(*)	(*)
1962.....	(*)	(*)	(*)	(*)	22.6	13.0	46.1	(*)	(*)	(*)
1963.....	(*)	(*)	(*)	(*)	22.8	13.1	45.7	(*)	(*)	(*)
1964.....	14.5	5.9	4.6	9.2	22.4	12.9	45.4	7.6	8.4	7.0
1965.....	14.2	5.7	4.5	8.8	21.8	12.4	44.0	6.4	7.6	5.6
1966.....	14.4	6.3	4.9	9.3	21.5	12.8	43.2	6.1	7.2	5.4
1967.....	14.5	6.9	5.4	10.0	21.4	13.1	43.7	6.0	6.9	5.4
1968.....	14.8	7.2	5.7	10.5	21.5	12.8	46.7	6.0	6.5	5.3
1969.....	14.6	7.4	5.8	11.1	21.3	13.2	45.6	7.1	7.2	7.2
1970.....	14.0	7.2	5.6	11.0	20.4	12.8	46.6	7.7	7.2	7.7
1971.....	13.9	6.9	5.2	11.0	21.2	12.7	47.1	7.5	6.7	7.8
1972.....	14.0	6.9	5.2	11.3	21.4	13.4	47.0	7.6	6.6	7.8
1973.....	13.7	7.0	5.2	11.5	20.9	13.0	47.0	7.6	6.7	7.1

<sup>1</sup> Blue Cross-Blue Shield data are adjusted for duplication, except where noted

<sup>2</sup> Data for operating costs separate from net underwriting gain or loss are not available

<sup>3</sup> Only data reported to national Blue Cross and Blue Shield organizations are available, these do not take into account duplication of data reported by joint plans.

held their ratio for 3 years—the lowest ratio of any of the insurers. The unique position of Blue Cross plans in this respect has been discussed earlier. Insurance companies were able to reduce their operating expense ratio for group business from 13.4 percent in 1972 to 13 percent in 1973; their ratio for individual business remained stable.

When operating expense in terms of per enrollee cost is examined, as indicated in the tabulation that follows, insurance companies are seen to have consistently had the highest cost, although their average annual increase over the 12-year period 1961-73 and their increase in cost in 1973 were the lowest of all insurers.

Year	Operating expense per enrollee				
	Blue Cross <sup>1</sup>	Blue Shield <sup>1</sup>	Insurance companies		Independent
			Group	Individual	
1961.....	\$1.76	\$1.79	\$5.66	\$15.28	\$4.38
1962.....	1.85	1.89	5.96	15.66	5.34
1963.....	1.95	2.01	6.16	16.58	5.86
1964.....	2.07	2.12	6.71	17.64	6.14
1965.....	2.18	2.20	6.93	19.00	4.40
1966.....	2.43	2.38	7.48	18.62	4.75
1967.....	2.72	2.61	7.75	18.95	4.85
1968.....	3.11	3.01	8.79	21.88	5.31
1969.....	3.63	3.63	9.51	21.44	6.65
1970.....	4.15	3.91	10.62	21.88	7.82
1971.....	4.66	4.44	11.22	24.83	8.68
1972.....	5.05	5.07	13.46	25.90	10.18
1973.....	5.49	5.69	13.68	25.16	11.05
Percentage change, 1961-73, average annual.....	9.9	10.0	7.8	4.3	8.0
1972-73.....	8.7	10.3	3.1	-6	8.5

<sup>1</sup> Duplication due to the fact that some plans are joint Blue Cross and Blue Shield plans and report the same data to both national organizations has not been eliminated

Source: Derived from the data on gross enrollment and financial experience in the annual articles on private health insurance, *Social Security Bulletin*, February issues.

Administrative expense—which for the carriers involves commissions, taxes, licenses, fees, and generally higher acquisition costs than those of other insurers—is also affected by such factors as intensity of claims review, increases in the number of claims or the number and types of plans offered, the demographic characteristics of the enrollees, and efficiency of administrative procedures.

### Net Cost of Private Health Insurance

The net cost of private health insurance to the American public was \$2.9 billion in 1973, only 2.9 percent higher than in 1972. The net cost represents the difference between earned premium or subscription income of the insurers and benefit expenditures (claims expense) and is made up of operating expense and net underwriting gain (or loss). The amounts are retentions by the insurers to cover operating expenses, profits, and such additions to reserves not accounted for by deductions from premium income or inclusion in claims expense. The net underwriting gain is used for additions to reserves and profits. In years when there is a net underwriting loss, part of the retention is actually a deficit that is met from previously accumulated reserves or by borrowing. Thus, in 1973 retentions (\$2.9 billion)—made up of \$3.3 billion in operating expenses and \$438 million in net underwriting loss—

TABLE 15.—Subscription or premium income and benefit expenditures of private health insurance organizations, 1948-73

[In millions]

Year	Total	Blue Cross-Blue Shield plans			Insurance companies			Independent plans
		Total	Blue Cross	Blue Shield	Total	Group policies	Individual policies	
Income								
1948	\$862 0	\$365 0	\$315 0	\$50 0	\$421 0	\$212 0	\$209 0	\$76 0
1950	1,291 5	574 0	436 7	137 3	605 0	333 0	272 0	112 5
1955	3,149 6	1,292 4	910 7	381 7	1,826 9	1,022 5	604 4	230 3
1960	5,841 0	2,482 0	1,773 0	709 1	3,027 0	2,104 0	923 0	331 9
1961	6,673 3	2,805 1	2,004 4	800 7	3,427 0	2,414 0	1,013 0	441 2
1962	7,411 1	3,118 6	2,212 8	905 8	3,810 0	2,708 0	1,102 0	482 5
1963	8,053 6	3,399 4	2,438 7	960 7	4,136 0	2,913 0	1,223 0	518 2
1964	8,983 6	3,785 1	2,697 6	1,087 5	4,652 0	3,297 0	1,355 0	546 5
1965	10,001 3	4,169 0	2,903 7	1,175 3	5,224 0	3,665 0	1,559 0	608 3
1966	10,564 1	4,327 8	3,085 9	1,241 9	5,595 0	3,987 0	1,608 0	641 3
1967	11,105 3	4,555 3	3,230 0	1,325 3	5,858 0	4,270 0	1,588 0	692 0
1968	12,898 7	5,187 1	3,665 0	1,522 1	6,933 0	5,159 0	1,774 0	778 6
1969	14,657 7	6,155 6	4,365 2	1,790 4	7,569 0	5,685 0	1,884 0	933 1
1970	17,184 8	7,370 9	5,147 1	2,223 8	8,746 0	6,774 0	1,972 0	1,067 9
1971	19,459 2	8,790 2	6,239 6	2,550 6	9,601 0	7,231 0	2,370 0	1,267 9
1972	22,363 0	9,923 3	7,066 9	2,856 4	10,905 0	8,309 0	2,596 0	1,534 7
1973	24,532 3	11,059 1	7,862 1	3,197 0	11,694 0	8,970 0	2,724 0	1,779 2
Benefit expenditures								
1948	\$606 0	\$308 0	\$269 0	\$39 0	\$228 0	\$148 0	\$80 0	\$70 0
1950	901 9	400 6	382 9	107 7	400 0	257 0	143 0	101 3
1955	2,535 7	1,146 7	832 2	314 5	1,179 0	858 0	321 0	210 0
1960	4,996 3	2,287 1	1,646 2	640 9	2,389 0	1,901 0	488 0	320 2
1961	5,965 4	2,585 4	1,867 1	718 3	2,706 0	2,170 0	536 0	404 0
1962	6,343 8	2,893 6	2,064 5	829 1	3,012 0	2,453 0	559 0	438 2
1963	6,979 3	3,179 5	2,317 3	862 2	3,332 0	2,671 0	661 0	467 8
1964	7,832 1	3,574 4	2,592 8	981 6	3,763 0	3,024 0	739 0	494 7
1965	8,728 9	3,912 9	2,853 4	1,059 5	4,265 0	3,413 0	852 0	551 0
1966	9,141 8	3,975 4	2,882 2	1,093 2	4,585 0	3,711 0	874 0	581 4
1967	9,544 8	4,082 8	2,963 1	1,119 7	4,937 0	3,998 0	939 0	625 0
1968	11,343 6	4,840 6	3,529 2	1,311 4	5,791 0	4,841 0	950 0	712 0
1969	13,068 5	5,903 1	4,271 4	1,631 7	6,306 0	5,349 0	957 0	859 4
1970	15,743 5	7,060 2	5,009 3	2,050 9	7,656 0	6,510 0	1,146 0	1,027 4
1971	17,713 1	8,178 7	5,906 9	2,271 8	8,341 0	7,067 0	1,274 0	1,193 4
1972	19,526 4	8,990 9	6,501 3	2,489 6	9,120 0	7,754 0	1,366 0	1,415 5
1973	21,614 1	10,004 2	7,187 3	2,816 9	9,930 0	8,333 0	1,597 0	1,679 9

amounted to 11.9 percent of premium income (table 19).

Retentions for Blue Cross-Blue Shield plans were \$1.05 billion, 13.1 percent higher than in

1972. The Blue Shield plans increased retentions by \$13 million. Retentions for the carriers were about the same as in 1972. Group business retentions increased slightly to \$637 million in 1973.

TABLE 16.—Financial experience of Blue Cross plans, 1950-73 <sup>1</sup>

[Amounts in thousands]

Year	Reserves	Earned subscription income	Total earned income	Claims expense	Operating expense	Total net income	As percent of subscription income			Net income as percent of total income
							Claims expense	Operating expense	Underwriting gain	
1950	\$116,531	\$433,770	\$436,084	\$383,331	\$36,281	\$17,371	88 4	8 4	3 3	4 0
1955	254,407	916,690	925,197	836,546	58,368	30,283	91 3	6 4	2 4	3 3
1960	363,253	1,783,172	1,802,789	1,654,951	90,821	57,017	92 8	5 1	2 1	3 2
1961	410,658	2,011,092	2,035,740	1,872,939	99,269	63,531	93 1	4 9	1 9	3 1
1962	454,626	2,230,747	2,257,523	2,103,084	107,204	47,235	94 3	4 8	9	2 1
1963	492,672	2,467,195	2,497,877	2,343,231	115,228	35,918	95 0	4 7	4	1 6
1964	511,112	2,731,380	2,766,829	2,624,302	124,969	17,558	96 1	4 6	- 7	1 6
1965	501,906	3,031,470	3,074,551	2,857,187	134,559	52,805	95 2	4 5	3	1 7
1966	649,633	3,121,111	3,168,187	2,912,733	154,132	101,322	93 3	4 9	1 7	3 2
1967	797,575	3,270,022	3,327,677	2,996,779	177,632	153,266	91 6	5 4	3 0	4 6
1968	801,389	3,711,798	3,776,487	3,571,797	211,698	- 7,008	96 2	5 7	- 1 9	- 2
1969	711,274	4,419,296	4,489,266	4,322,341	256,227	- 89,302	97 8	5 8	- 3 6	- 2 0
1970	651,655	5,385,835	5,467,512	5,220,662	302,463	- 55,613	96 9	5 6	- 2 5	- 1 0
1971	747,230	6,390,127	6,477,615	6,053,537	338,910	85,168	94 7	5 3	(*)	1 3
1972	1,053,428	7,280,243	7,389,914	6,681,619	385,029	320,266	91 8	5 3	2 9	4 4
1973	1,464,418	8,091,784	8,248,680	7,374,871	436,210	437,600	91 1	5 4	3 5	5 3

<sup>1</sup> Data in all years exclude Health Services, Inc., and are not adjusted for duplication between Blue Cross and Blue Shield

<sup>2</sup> Includes Puerto Rico  
<sup>3</sup> Less than -0.05 percent.



Individual insurance retentions declined by \$103 million from 1972. For the independent plans, retentions dropped from \$119 million in 1972 to \$99 million in 1973.

### PROPORTION OF CONSUMER EXPENDITURES MET BY INSURANCE

In 1973, private health insurance met 41 percent of consumer expenditures for personal health care.<sup>9</sup> If the net cost of obtaining health insurance protection—the difference between premiums and benefits—were to be added to expenditures, the proportion covered by insurance benefits would be lower.

The proportion of expenditures met by health insurance varies with the type of care as the data below indicate. In 1973, insurance plans

Year	Total	Hospital care	Physicians' services	Other types of care
1950.....	12 2	37 1	12 0	(1)
1955.....	21 7	56 0	25 0	(2)
1960.....	27 8	64 7	30 0	1 3
1961.....	30 1	67 4	32 8	1 7
1962.....	31 0	69 4	33 0	1 9
1963.....	31 8	68 2	33 6	2 1
1964.....	31 6	68 9	32 2	2 3
1965.....	32 6	71 2	32 8	2 5
1966.....	32 3	69 0	33 9	2 8
1967.....	33 5	73 3	35 9	3 8
1968.....	36 3	76 9	40 7	4 1
1969.....	36 6	74 3	41 1	4 7
1970.....	38 5	77 9	43 8	4 9
1971.....	39 6	82 5	43 9	5 4
1972.....	40 2	77 7	46 5	6 1
1973.....	40 9	75 3	48 5	7 1

<sup>1</sup> Included in physicians' services

paid about 75 percent of hospital costs, 48 percent of physicians' charges, but only 7 percent of the costs of other types of care.

### PROPORTION OF ALL NATIONAL EXPENDITURES MET BY INSURANCE

Total national expenditures for personal health care (excluding expenditures for insurance premiums and administrative expenses of public programs, as well as for research, construction, government public health activities, and fundraising expenses of philanthropic organizations) amounted to \$85.9 billion in 1973. Private health

insurance met 25.2 percent of this amount (compared with 25.0 percent in 1972), 36.4 percent came from direct out-of-pocket payments by consumers, 37.1 percent was met by public funds, and 1.4 percent came from philanthropy and industry. Thus, in 1973 private payments by consumers—out-of-pocket and through private health insurance—made up approximately 62 percent of the total national expenditures for personal health care.

### TECHNICAL NOTE

#### Sources of Enrollment Data

Blue Cross and Blue Shield data are supplied by the Blue Cross Association and the National Association of Blue Shield Plans from data reported to them by individual plans. The data for insurance companies were compiled by the Health Insurance Association of America from its annual survey of the number of persons covered by insurance companies under group and individual policies.

Gross enrollments are reported by the Blue Cross-Blue Shield associations for all types of care for regular membership (under age 65) and for coverage complementary to Medicare (aged 65 and over and disabled members under age 65 eligible for Medicare). Major medical and extended-benefits coverage is reported for the combined age groups.

Gross enrollments for hospital and surgical care and regular medical expenses are reported by HIAA for persons under age 65 and aged 65 and over. In 1973, HIAA revised its 1972 figures for each age group and the data for 1960-71 for the combined age groups. For other types of services, HIAA reports gross enrollments only for persons under age 65.

For independent health insurance plans, the data are based on estimates from Office of Research and Statistics annual surveys of independent plans. Estimates for 1973 have been made on the basis of changes in enrollment in the larger plans from 1972 to 1973, as reported in the 1974 survey.<sup>10</sup> The results of a full survey of all known

<sup>9</sup> See Nancy L. Worthington, *National Health Expenditures, Calendar Years 1929-73* (Research and Statistics Note No. 1), Office of Research and Statistics, 1975

<sup>10</sup> Marjorie Smith Mueller, *Independent Health Insurance Plans in 1973* (a forthcoming Research and Statistics Note), Office of Research and Statistics, 1975.

TABLE 17.—Financial experience of Blue Shield plans, 1950-73 <sup>1</sup>

[Amounts in thousands]

Year	Reserves	Earned subscription income	Total earned income	Claims expense	Operating expense	Total net income	As percent of subscription income			Net income as percent of total income
							Claims expense	Operating expense	Underwriting gain	
1950.....	\$34,954	\$140,817	\$141,594	\$111,039	\$18,653	\$11,902	78 8	13 2	7 9	8 4
1955.....	164,705	399,781	404,294	331,068	43,610	29,616	82 8	10 9	6 3	7 3
1960.....	228,634	741,184	761,529	670,776	76,245	4,508	90 5	10 3	— 8	6 6
1961.....	236,101	837,773	848,992	752,695	82,741	13,556	89 8	9 9	— 3	1 6
1962 <sup>1</sup> .....	266,536	974,088	985,373	868,816	91,136	25,421	83 2	9 4	1 5	2 6
1963 <sup>2</sup> .....	289,440	1,066,356	1,101,745	977,147	99,662	24,936	89 9	9 2	— 0	2 3
1964 <sup>1</sup> .....	317,528	1,209,394	1,227,557	1,095,713	108,691	23,153	80 9	9 0	— 0	1 9
1965 <sup>1</sup> .....	347,266	1,318,915	1,338,907	1,190,486	115,940	32,481	80 3	8 8	— 9	2 4
1966.....	398,374	1,399,890	1,413,185	1,226,383	129,864	66,938	88 2	9 3	2 5	4 0
1967.....	509,094	1,489,640	1,519,309	1,261,650	148,750	108,909	84 7	10 0	5 3	7 2
1968.....	578,390	1,703,548	1,747,867	1,481,070	180,154	86,643	86 6	10 5	2 8	5 0
1969.....	555,079	2,007,970	2,054,571	1,834,495	222,614	— 2,438	91 4	11 1	— 2 5	— 1
1970.....	491,066	2,320,877	2,369,600	2,165,572	254,726	— 50,698	93 3	11 0	— 4 3	— 2 1
1971.....	528,202	2,814,696	2,866,368	2,530,826	295,282	42,260	89 9	10 5	— 4	1 5
1972.....	691,445	3,282,927	3,342,689	2,864,633	346,861	131,095	87 3	10 6	2 2	3 9
1973.....	791,147	3,761,845	3,841,613	3,339,650	396,965	104,998	88 8	10 6	7	2 7

<sup>1</sup> Data in all years exclude Medical Indemnity of America and are not adjusted for duplication between Blue Cross and Blue Shield

<sup>2</sup> Includes Jamaica

<sup>3</sup> Includes Puerto Rico but excludes Jamaica

plans that was conducted in 1973 will be presented in an Office of Research and Statistics research report to be published in 1975.

Gross enrollment figures are total enrollments reported by the various insurers, by type of care, with no deduction for duplication among insurers.

### ORS Estimates of Net Coverage

The ORS estimates of net coverage for hospital and surgical care and for physicians' office and home visits in 1972 are based on figures collected during 1972 by the Health Interview Survey of the National Center for Health Statistics (NCHS). As seen in the tabulation that follows, the data are provided for both the population groups under age 65 and those aged 65 and over.

Type of insurance coverage	Percentage distribution of civilian noninstitutional population			
	Total	Insured	Not insured	Unknown
Under age 65				
Hospital.....	100 0	76 7	22 9	0 6
Surgical.....	100 0	75 1	23 7	1 2
Office and home visits.....	100 0	31 0	59 6	9 4
Aged 65 and over				
Hospital.....	100 0	56 0	43 4	0 6
Surgical.....	100 0	51 9	46 3	1 9
Office and home visits.....	100 0	17 3	73 6	9 1

Source Unpublished 1972 data from Health Interview Survey, National Center for Health Statistics.

The "don't knows" for both age groups were distributed in the same proportion as those who reported having or not having insurance, and the results were then adjusted to apply to the total civilian population on the assumption that none of the institutional population had insurance. No reliable data are available on the number of persons in institutions who have insurance, but it is believed that the overall proportion is very small. The data were next adjusted to reflect the situation at the end of 1972. The estimates did not assume any changes in the rate of coverage during the year and the end of that year.

The data on the net number of persons covered for hospital and surgical care before 1972 and for doctors' visits (1970 only) are those reported by various NCHS household surveys from time to time during the period. The 1973 projections of the 1972 NCHS figures for persons under age 65 are derived from percentage increases from 1972 to 1973 in HIAA's net coverage figures for hospital and surgical care and in its net coverage figures for group major medical coverage (for physicians' home and office visits). For persons aged 65 and older, projections for hospital and surgical coverage were also derived from HIAA percentage increases in net coverage for that age group. The increase in physicians' visits was assumed to be lower than the increases for hospital and surgical care since home and office visits are less frequently included in coverage complementary to Medicare than either hospital or surgical expenses.

TABLE 18 —Benefit expenditures of all private health insurance organizations, by specified type of care, 1950-73

Year	Total	Hospital care	Physicians' services	Other types of care
Amount (in millions)				
1950.....	\$992	\$680	\$312	(1)
1955.....	2,536	1,670	857	(1)
1960.....	4,996	3,304	1,593	\$99
1961.....	5,695	3,766	1,796	133
1962.....	6,344	4,197	1,992	155
1963.....	6,980	4,642	2,153	185
1964.....	7,832	5,187	2,427	218
1965.....	8,729	5,790	2,680	259
1966.....	9,142	5,993	2,831	318
1967.....	9,545	6,134	2,964	447
1968.....	11,344	7,329	3,477	538
1969.....	13,069	8,356	4,029	684
1970.....	15,744	10,008	4,908	828
1971.....	17,713	11,279	5,430	1,004
1972.....	19,526	12,242	6,088	1,196
1973.....	21,614	13,339	6,775	1,500
Percentage distribution				
1950.....	100.0	68.5	31.5	(1)
1955.....	100.0	66.2	33.8	(1)
1960.....	100.0	66.1	31.9	2.0
1961.....	100.0	66.1	31.6	2.3
1962.....	100.0	66.2	31.4	2.4
1963.....	100.0	66.5	30.8	2.7
1964.....	100.0	66.2	31.0	2.8
1965.....	100.0	66.3	30.7	3.0
1966.....	100.0	65.5	31.0	3.5
1967.....	100.0	64.3	31.0	4.7
1968.....	100.0	64.6	30.7	4.7
1969.....	100.0	63.9	30.8	5.3
1970.....	100.0	63.6	31.2	5.2
1971.....	100.0	63.7	30.6	5.7
1972.....	100.0	62.7	31.2	6.1
1973.....	100.0	61.7	31.4	6.9

<sup>1</sup> Included in "physicians' services"

Estimates of the net number of persons with coverage of other services in 1973 have been made by assuming the ratios of gross enrollment to the number covered, as shown in the tabulation below. The ratios are believed to be reasonable since

Type of insurance coverage	Under age 65	Aged 65 and over
In-hospital visits.....	118.8	105.2
X-ray and laboratory examinations.....	119.0	112.5
Prescribed drugs (out-of-hospital).....	105.0	102.0
Private-duty nursing.....	105.0	102.0
Visiting-nurse service.....	105.0	102.0
Nursing-home care.....	102.0	101.0
Dental care.....	100.0	100.0

the extent of multiple coverage is presumably much greater for hospital care and surgical services than it is for other types of health care.

### HIAA Estimates of Net Coverage

The HIAA provides estimates of net coverage of persons under age 65 and those aged 65 and

over for hospital, surgical, and nonsurgical medical expense coverage. The nonsurgical medical expense estimate is used for in-hospital medical visits. HIAA also provides estimates of net coverage under group major medical insurance policies. In 1973, HIAA revised its net figures for the separate age groups for the year 1972 and for the two age groups combined for the years 1960-71. Net figures are enrollments after deductions for duplicate coverage for persons with insurance company protection and for persons protected by more than one type of insurer.

### Sources of the Financial Data

In table 12, the data for Blue Cross and Blue Shield plans are based on financial statements for all plans supplied by the Blue Cross Association and the National Association of Blue Shield Plans. Duplication resulting from the fact that six joint Blue Cross-Blue Shield plans report identical data to both national organizations has been eliminated. Data for Health Services, Incorporated, and for Medical Indemnity of America—insurance companies owned by the Blue Cross and Blue Shield associations, respectively—have been included.

Data on premium income and benefit expense of insurance companies were provided by HIAA, based on the National Underwriter Company's annual survey of accident and health insurance and its own survey of companies in this field. National Underwriter data are U.S. totals adjusted to premiums earned and losses incurred. The HIAA adjusts these totals by eliminating Canadian companies. It then deducts premiums and estimated losses for accidental death and dismemberment insurance, as shown by its annual survey of 250 companies, and the premiums and losses of the two insurance companies owned by the Blue Cross and Blue Shield associations. The HIAA's annual survey of premiums written and benefits paid by 250 companies is by line of insurance—that is, hospital, surgical, medical, major medical, wage replacement, and dental. The HIAA converts premiums written, by line, to premiums earned after dividends by using the ratio of its total premiums written to National Underwriter's total premiums earned.

Benefits incurred, by line, were not available

TABLE 19.—Retentions<sup>1</sup> of private health insurance organizations as a percent of subscription or premium income, 1948-73<sup>2</sup>

Year	Total	Blue Cross-Blue Shield plans			Insurance companies			Independent plans <sup>3</sup>			Private group clinic	Dental service corporation
		Total	Blue Cross	Blue Shield	Total	Group policies	Individual policies	Total	Community	Employer-employee-union		
1948.....	29 7	15 6	14 6	22 0	45 8	30 2	61 7	7 9	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1950.....	23 2	14 5	12 3	21 6	33 9	22 8	47 4	10 0	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1955.....	19 5	11 3	8 6	17 6	27 5	16 1	46 9	8 8	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1960.....	14 5	7 9	7 2	9 6	21 1	9 6	47 1	3 5	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1961.....	14 7	7 8	6 8	10 3	21 0	10 1	47 1	8 4	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1962.....	14 4	7 2	5 7	11 0	20 9	9 4	49 3	9 2	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1963.....	13 3	6 5	5 0	10 3	19 4	8 3	46 0	9 7	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1964.....	12 8	5 6	3 9	9 7	19 1	8 3	45 5	9 5	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
1965.....	12 7	6 1	4 7	9 9	18 4	6 9	45 3	9 4	8 2	10 2	10 7	6 9
1966.....	13 5	8 1	6 6	12 0	18 1	6 9	45 6	9 3	8 0	10 2	11 8	6 5
1967.....	14 0	10 4	8 3	15 5	17 4	6 4	47 2	9 7	8 4	10 8	13 3	6 2
1968.....	12 1	6 7	3 7	13 8	16 5	6 2	46 4	8 6	6 2	9 7	5 8	17 2
1969.....	10 8	4 1	2 2	8 9	16 7	5 9	49 2	7 9	6 9	8 2	12 9	10 8
1970.....	8 4	4 2	2 7	7 8	12 5	3 9	41 9	3 8	4 5	1 6	18 0	14 7
1971.....	9 9	7 0	5 3	10 9	13 1	2 3	46 2	5 9	5 3	4 3	19 1	20 0
1972.....	12 7	9 4	8 0	12 8	16 4	6 7	47 4	7 8	7 9	6 2	21 5	13 3
1973.....	11 9	9 5	8 6	11 9	15 1	7 1	41 4	5 6	3 1	4 8	31 4	13 0

<sup>1</sup> Amounts retained by the organizations for operating expenses, additions to reserves, and profits.

<sup>2</sup> Derived from table 15

<sup>3</sup> Data by type of plan before 1965 not available.

from HIAA for the year 1973. These figures were computed by ORS, by prorating HIAA total benefits paid to National Underwriter's total benefits incurred. Operating expenses were estimated by applying the ratio of operating expense to premium income derived from the National Underwriter aggregates<sup>11</sup> to the HIAA figures for premium income. The data for independent plans, as mentioned earlier, are estimates of the

Office of Research and Statistics based on its 1974 survey.

Data in tables 17 and 18 show the financial experience of Blue Cross plans and Blue Shield plans, respectively, based on reports of the 74 Blue Cross plans and the 70 Blue Shield plans. These data exclude Health Services, Inc., and Medical Indemnity of America, insurance companies owned by the national associations. The data are not adjusted to eliminate the duplication with respect to the six joint plans that report identical data to the two national organizations.

<sup>11</sup> 1973 *Argus Chart of Health Insurance*, National Underwriter Publication, 1973, page 112.