

Private Health Insurance Plans in 1978 and 1979: A Review of Coverage, Enrollment, and Financial Experience

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The private health insurance industry collected \$55.9 billion in premiums in 1979 and returned \$50.2 billion in benefits to its subscribers. Premiums rose 12.4 percent, slightly faster than in 1978 when premiums rose 11.4 percent, to \$49.7 billion. Benefits rose 11.4 percent in 1979, down from the 12.6 rate in 1978. After operating expenses were deducted, the industry showed underwriting losses of \$1.4 billion in 1979 and \$1.5 billion in 1978. About 78 percent of the population was insured for hospital care, 76 percent for x-ray and laboratory examinations, and about 75 percent for surgical services in 1979. Smaller percentages had coverage for other types of care. An estimated 64 percent of the aged bought private hospital insurance, and about 43 percent bought surgical insurance, mostly to supplement Medicare benefits. An estimated 12 percent of persons under age 65 had no protection against the cost of hospital care either through private insurance or a public program such as Medicare or Medicaid.

Extent of Health Insurance Coverage

Private Insurance Coverage of the Population

The proportion of the nation's population covered by private health insurance has varied little from 1976 through 1979—increasing only from 77 percent in 1976 to 78 percent in 1979 for hospital coverage and remaining about 75 percent for surgical care. The rate of growth in hospital and surgical enrollment barely exceeded the rate of growth in the civilian population. The only substantial gains were in coverage for x-ray and laboratory examinations (about 14 percent), visiting nurse services (about 27 percent), and nursing home care (about 52 percent), far surpassing the growth in population of about 2.7 percent during that period.

In 1979, 171 million persons—1.7 million more persons than in 1978 and almost 7 million more than in 1976—were covered by private hospital insurance through an insurance company, a Blue Cross or Blue Shield plan, or an independent prepaid or self-insured health plan. Surgical insurance was carried by 165 million persons—3.2 million more persons than in 1978 and almost 5 million more than in 1976 (Table 1).

One hundred sixty-six million persons had private insurance covering the cost of x-ray and laboratory examinations. A smaller percentage of the population

was protected against the costs of other health care services. In 1979, about 61 percent had private insurance to help pay the cost of physicians' home and office visits, a slight decline from the previous year. Seventy-three percent of the population was covered for visiting nurse services, an increase of 9 percentage points over 1978. Only 27 percent of the population had private dental insurance, and only 44 percent had some level of insurance payment for nursing home care.

In both 1978 and 1979, the fastest growth occurred in coverage for dental care, visiting nurse service, and nursing home care. Both employer related and individually purchased coverage rose in the effort to substitute visiting nurse service and nursing home care for expensive hospitalization whenever possible. Collective bargaining settlements brought dental care to larger numbers of workers and their families, although the rate of growth slowed from 21 percent in 1978 to 12 percent in 1979.

About four-fifths of persons under age 65—the work force and their families—were insured for hospital related services between 1976 and 1979. In 1979, 80 percent of this group had some level of payment for out-of-hospital x-ray and laboratory examinations, compared with only 73 percent in 1976. Almost two-thirds of this age group had some level of coverage for prescribed drugs (out-of-hospital), physicians' office visits and private duty nursing, but all three categories showed losses from 1978 coverages.

TABLE 1
Estimates of Net Number of Persons Under Private Health Insurance Plans and Percent of Population Covered, by Age and Specified Type of Care, for Calendar Years 1976 through 1979

	All Ages		Under Age 65		Age 65 and Over	
	Number (in Thousands)	Percent of Civilian Population ¹	Number (in Thousands)	Percent of Civilian Population ²	Number (in Thousands)	Percent of Civilian Population ³
1979						
Hospital Care	170,791	77.8	154,790	79.5	16,001	64.1
Physicians' Services						
Surgical Services	165,090	75.2	154,407	79.3	10,683	42.8
In-hospital Visits	167,559	76.3	156,578	80.4	10,981	44.0
X-ray and Laboratory Examinations	166,374	75.8	155,774	80.0	10,600	42.4
Office and Home Visits	133,351	60.7	126,735	65.1	6,616	26.5
Dental Care	60,269	27.4	58,747	30.2	1,522	6.1
Prescribed Drugs (out-of-hospital)	131,237	59.8	126,865	65.2	4,372	17.5
Private Duty Nursing	126,934	57.8	123,405	63.4	3,529	14.1
Visiting Nurse Service	161,082	73.3	152,671	78.4	8,411	33.7
Nursing Home Care	97,632	44.4	85,698	44.0	11,934	47.8
1978						
Hospital Care	169,076	77.8	152,901	79.2	16,175	66.4
Physicians' Services						
Surgical Services	161,881	74.4	151,550	78.5	10,331	42.4
In-hospital Visits	163,549	75.2	152,838	79.2	10,711	44.0
X-ray and Laboratory Examinations	151,120	69.5	142,000	73.6	9,120	37.4
Office and Home Visits	135,776	62.4	128,854	66.7	6,922	28.4
Dental Care	53,825	24.8	52,222	27.0	1,603	6.6
Prescribed Drugs (out-of-hospital)	132,300	60.8	127,722	66.2	4,578	18.8
Private Duty Nursing	133,746	61.5	130,283	67.5	3,463	14.2
Visiting Nurse Service	139,982	64.4	133,464	69.1	6,518	26.8
Nursing Home Care	84,489	38.9	75,931	39.3	8,558	35.1
1977						
Hospital Care	168,383	78.1	151,910	79.2	16,473	67.3
Physicians' Services						
Surgical Services	161,658	75.0	149,833	78.1	11,825	49.7
In-hospital Visits	160,195	74.3	150,169	78.3	10,026	42.1
X-ray and Laboratory Examinations	146,243	67.8	137,394	71.6	8,849	37.2
Office and Home Visits	124,270	57.6	117,484	61.2	6,786	28.5
Dental Care	44,414	20.6	43,282	22.6	1,132	4.8
Prescribed Drugs (out-of-hospital)	131,364	60.9	127,040	66.2	4,324	18.2
Private Duty Nursing	129,947	60.3	126,209	65.8	3,738	15.7
Visiting Nurse Service	130,300	60.4	125,981	65.7	4,319	18.2
Nursing Home Care	61,127	28.3	55,813	29.7	5,314	23.3
1976						
Hospital Care	164,235	76.8	149,643	78.5	14,592	62.8
Physicians' Services						
Surgical Services	160,171	74.9	149,262	78.3	10,909	47.0
In-hospital Visits	159,575	74.6	149,963	78.7	9,612	41.4
X-ray and Laboratory Examinations	147,063	68.8	138,782	72.8	8,281	35.6
Office and Home Visits	127,214	59.5	121,311	63.6	5,903	25.4
Dental Care	39,462	18.4	38,862	20.4	600	2.6
Prescribed Drugs (out-of-hospital)	132,260	61.8	127,645	67.0	4,615	19.9
Private Duty Nursing	128,939	60.3	124,547	65.3	4,392	18.9
Visiting Nurse Service	126,963	59.4	122,364	64.2	4,599	19.8
Nursing Home Care	64,024	29.9	58,762	30.8	5,262	22.6

¹For the all ages group, the civilian population in 1979 is based on the Bureau of Census estimate of 219,625,000 as of January 1, 1980; in 1978 it is based on the Bureau of Census estimate of 217,417,000 as of January 1, 1979; in 1977 it is based on the Bureau of Census estimate of 215,618,000 as of January 1, 1978; and in 1976 it is based on the Bureau of Census estimate of 213,863,000 as of January 1, 1977.

²For the under age 65 group, the civilian population in 1979 is based on the Bureau of Census estimate of 194,648,000 as of January 1, 1980; in 1978 it is based on the Bureau of Census estimate of 193,057,000 as of January 1, 1979; in 1977 it is based on the Bureau of Census estimate of 191,823,000 as of January 1, 1979; and in 1976 it is based on the Bureau of Census estimate of 190,628,000 as of January 1, 1977.

³For the age 65 and over group, the civilian population in 1979 is based on the Bureau of Census estimate of 24,977,000 as of January 1, 1980; in 1978 it is based on the Bureau of Census estimate of 24,360,000 as of January 1, 1979; in 1977 it is based on the Bureau of Census estimate of 23,795,000 as of January 1, 1978; and in 1976 it is based on the Bureau of Census estimate of 23,235,000 as of January 1, 1977.

Private insurance coverage of the aged grew more rapidly than coverage for persons under age 65 due mainly to the faster growth of the aged segment of the population over the four year period—7.5 percent compared with 2.1 percent for the under 65 age group.

In 1978 about two-thirds of the aged population, virtually all of whom were covered by Medicare hospital insurance and supplementary medical insurance, also had private insurance for hospital care, most of it to supplement Medicare coverage. This coverage was purchased mostly by individuals, but to some extent by employers where unions had bargained for continued group coverage into retirement. Supplementary private insurance paid some or all patient deductibles and co-insurance required by Medicare for hospital care. Less than 50 percent of the aged had supplementary private insurance coverage for physicians' services, visiting nurse services and nursing home care, but the latter two categories showed substantial gains over the coverage rates of 1976. Insurance plans covering less than 18 percent of the aged made partial payments for services excluded by Medicare—prescribed drugs and private duty nursing. In 1979, the proportion of the aged population with private insurance coverage ranged from 64 percent for hospital care to 6 percent for dental care. The pattern of coverage showed that private insurance was being purchased mainly for high risk types of care for the aged. For example, only a fourth of the aged had supplementary coverage for physicians' office visits, probably because it was more economical to pay out of pocket or "self-insure" for those physicians charges not covered by Medicare than it was to pay for a higher priced Medigap insurance policy. The elderly who do have such coverage are mostly in group plans where retirees continue to be covered at the expense of the employer. For high risk hospital coverage, however, individual insurance policies were purchased in 1978 and 1979 by almost 4 times as many persons as were covered by group insurance plans. In 1976 that ratio was 3 to 1.

Gross Enrollments

Private insurers reported a record 220.8 million in enrollments for hospital care in 1979, of which 50.0 million, or approximately 23 percent, represented duplicate or multiple coverage (Table 2). Multiple coverage occurs: when both spouses are employed and both have group insurance through their employer; when a person with group insurance purchases an individual policy or policies to supplement group coverage; or when a person not eligible for group insurance holds two or more individual policies in an effort to obtain some level of protection against the costs of health care. The rate of duplication was lower for physicians' services (14 to 17 percent) and for other types of care—ranging from 10 percent for nursing home care to 14 percent for prescribed drugs and private duty nursing.

Rates of duplication were about the same in 1978. Rates of duplication for the aged ran slightly lower than for the under age 65 group, in both years.

Table 2 also shows enrollments for the various kinds of health care, by type of private insurer and for each of the age groups, for the years 1976 through 1979.

Market Shares

The 1979 market shares of the various insurers for hospital, surgical, prescribed drugs, and dental care are illustrated in Figures 1-4.

Insurance Companies

Despite a slightly diminishing share over the past four years, insurance companies continued their lead in the market for the work force and their families, holding 51 percent of that group's total enrollments for hospital care in 1979 (Table 3). Enrollments in employer related group policies for hospital care numbered 73.6 million; an additional 28.2 million enrollments were in individual hospital policies, for a total of 101.7 million total enrollees, well above the 76.2 million hospital enrollments in Blue Cross and Blue Shield plans. Insurance company policies (mostly major medical) covering physicians' office visits, prescribed out-of-hospital drugs, and private duty nursing covered 65 to 70 million more enrollees than were covered by Blue Cross-Blue Shield plans. Insurance company dental plans insured almost four times the number of persons covered by Blue Cross and Blue Shield plans (Tables 2 and 3).

Blue Cross and Blue Shield Plans

In 1979, the 69 Blue Cross plans and the 69 Blue Shield plans enrolled 85.4 million persons for hospital care and 73.5 million persons for surgical services—37 and 38 percent of the population that these plans served. About 85 percent of these persons were enrolled in group plans. Of this number, 9.3 million persons age 65 and over or disabled and under age 65 were enrolled for coverage beyond Medicare levels or for health care services not provided by Medicare. Blue Cross and Blue Shield shares represented 47 percent of the hospital market for the elderly and 38 percent of the under-age-65 market. For surgical care, their shares accounted for 67 percent of the elderly market and 35 percent of the market for workers and their families. Blue Cross and Blue Shield plans continued to dominate the market for nursing home care, particularly for the elderly, where they held 76 percent of the market. Their shares for the remaining types of care were slightly diminished from their shares in 1978.

Independent Plans

A growing share of the market was held by independent prepaid and self-insured health plans. These plans are not underwritten by Blue Cross or Blue Shield or an insurance company. They are sponsored by consumers, by labor, management or both, and by health professionals. Most independent plans are not for profit.

TABLE 2
Gross Enrollment Under Private Health Insurance Plans, by Age, Type of Plan and
Specified Type of Care as of December 31, 1976 through December 31, 1979
(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	Hospital Visits	X-ray and Laboratory Examinations	Office and Home Visits						
1979											
All Ages											
Total ¹	220,753	197,838	196,121	201,429	154,567	60,269	152,687	147,519	183,801	108,056	•
Blue Cross and Blue Shield	85,409	73,458	70,579	77,836	31,403	8,251	31,852	26,815	64,493	58,939	2,625
Blue Cross	83,150	3,832	3,863	•	3,310	•	•	•	•	•	•
Blue Shield	2,259	69,626	66,716	•	28,093	•	•	•	•	•	•
Insurance Companies ¹	109,842	95,274	97,735	96,609	96,609	29,691	96,609	96,658	96,609	27,590	•
Group Policies ¹	75,458	77,572	88,904	89,296	89,296	29,691	89,296	89,288	89,296	21,377	•
Individual Policies	34,384	17,702	8,831	7,313	7,313	—	7,313	7,370	7,313	6,213	•
Independent Plans ²	25,502	29,106	27,807	26,984	26,555	22,327	24,226	24,046	22,699	21,527	18,410
Under Age 65											
Total	201,213	185,161	184,015	189,732	147,249	58,747	147,838	143,603	177,472	94,859	•
Blue Cross and Blue Shield	76,152	65,025	62,605	69,115	27,001	7,898	29,832	25,437	57,467	48,855	2,537
Blue Cross	74,144	3,364	3,342	•	3,158	•	•	•	•	•	•
Blue Shield	2,008	61,661	59,263	•	23,843	•	•	•	•	•	•
Insurance Companies ¹	101,740	93,159	95,620	95,620	95,620	29,216	95,620	95,620	95,620	26,020	•
Group Policies ¹	73,565	77,203	88,535	88,535	88,535	29,216	88,535	88,535	88,535	20,692	•
Individual Policies	28,175	15,956	7,085	7,085	7,085	—	7,085	7,085	7,085	5,328	•
Independent Plans ²	23,321	26,977	25,790	24,997	24,628	21,633	22,386	22,546	21,385	19,984	17,165
Age 65 and over											
Total	19,540 ³	12,677 ³	12,106 ³	11,697 ³	7,318 ³	1,522	4,849	3,916	9,329 ³	13,197 ³	•
Blue Cross and Blue Shield	9,257 ³	8,433 ³	7,974 ³	8,721 ³	4,402 ³	353	2,020	1,378	7,026 ³	10,084 ³	88
Blue Cross	9,006 ³	468 ³	521 ³	•	152 ³	•	•	•	•	•	•
Blue Shield	251 ³	7,965 ³	7,453 ³	•	4,250 ³	•	•	•	•	•	•
Insurance Companies ¹	8,102	2,115	2,115	989	989	475	989	1,038	989	1,570	•
Group Policies ¹	1,893	369	369	761	761	475	761	753	761	685	•
Individual Policies	6,209	1,746	1,746	228	228	—	228	285	228	885	•
Independent Plans ²	2,181	2,129	2,017	1,987	1,927	694	1,840	1,500	1,314	1,543	1,245
1978											
All Ages											
Total ¹	218,509	193,994	191,427	183,030	157,368	53,825	153,914	155,450	162,414	93,512	•
Blue Cross and Blue Shield	85,348	74,398	70,621	63,601	38,545	5,922	38,451	39,377	47,287	42,284	2,334
Blue Cross	82,950	4,611	4,229	•	2,138	•	•	•	•	•	•
Blue Shield	2,398	69,787	66,392	•	36,407	•	•	•	•	•	•
Insurance Companies ¹	111,672	94,586	96,811	95,738	95,738	30,076	95,738	95,738	95,738	35,428	•
Group Policies ¹	75,621	77,824	88,503	88,848	88,848	30,076	88,848	88,848	88,848	28,846	•
Individual Policies	36,051	16,742	8,308	6,890	6,890	—	6,890	6,890	6,890	6,582	•
Independent Plans ²	21,489	25,030	23,995	23,691	23,085	17,827	19,725	20,335	19,389	15,800	16,284
Under Age 65											
Total	198,757	181,735	179,619	172,966	149,711	52,222	148,837	151,607	155,185	84,048	•
Blue Cross and Blue Shield	76,236	65,932	62,516	56,171	33,453	5,430	35,761	37,692	42,069	35,649	2,311
Blue Cross	74,055	4,062	3,728	•	1,994	•	•	•	•	•	•
Blue Shield	2,181	61,870	58,788	•	31,459	•	•	•	•	•	•
Insurance Companies ¹	102,870	92,604	94,849	94,849	94,849	29,595	94,849	94,849	94,849	33,731	•
Group Policies ¹	73,715	77,455	88,134	88,134	88,134	29,595	88,134	88,134	88,134	28,076	•
Individual Policies	29,155	15,149	6,715	6,715	6,715	—	6,715	6,715	6,715	5,655	•
Independent Plans ²	19,651	23,199	22,254	21,946	21,409	17,197	18,227	19,066	18,267	14,668	15,183
Age 65 and over											
Total	19,752 ³	12,259 ³	11,808 ³	10,064 ³	7,657 ³	1,603	5,077	3,843	7,229 ³	9,464 ³	•
Blue Cross and Blue Shield	9,112 ³	8,466 ³	8,105 ³	7,430 ³	5,092 ³	492	2,690	1,685	5,218 ³	6,635 ³	23
Blue Cross	8,895 ³	549 ³	501 ³	•	144 ³	•	•	•	•	•	•
Blue Shield	217 ³	7,917 ³	7,604 ³	•	4,948 ³	•	•	•	•	•	•
Insurance Companies ¹	8,802	1,962	1,962	889	889	481	889	889	889	1,697	•
Group Policies ¹	1,906	369	369	714	714	481	714	714	714	770	•
Individual Policies	6,896	1,593	1,593	175	175	—	175	175	175	927	•
Independent Plans ²	1,838	1,831	1,741	1,745	1,676	630	1,498	1,269	1,122	1,132	1,101

TABLE 2 (Continued)
Gross Enrollment Under Private Health Insurance Plans, by Age, Type of Plan and
Specified Type of Care as of December 31, 1976 through December 31, 1979
(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 Labora- tory Exami- nations	Office and Home Visits							
												1977 All Ages
Total¹	208,333	189,939	187,535	179,653	144,007	44,414	152,837	151,014	151,237	68,868	*	
Blue Cross and Blue Shield Insurance Companies¹	85,101	75,379	71,261	63,284	28,372	5,283	41,208	38,249	39,108	32,066	1,593	
Group Policies ¹	105,126	93,034	95,568	95,568	95,568	24,897	95,568	95,568	95,568	25,206	*	
Individual Policies	76,439	78,625	89,467	89,467	89,467	24,897	89,467	89,467	89,467	19,492	*	
Independent Plans²	28,687	14,409	6,101	6,101	6,101	—	6,101	6,101	6,101	5,714	*	
	18,106	21,526	20,706	20,801	20,067	14,234	16,061	17,197	16,561	11,598	14,410	
			Under Age 65									
Total¹	189,316	176,218	176,482	169,888	136,501	43,282	148,042	146,866	146,447	62,990	*	
Blue Cross and Blue Shield Insurance Companies¹	76,228	67,170	63,766	57,187	24,353	5,147	39,631	37,156	37,496	28,038	1,575	
Group Policies ¹	96,249	89,252	93,539	93,539	93,539	24,499	93,539	93,539	93,539	23,907	*	
Individual Policies	74,620	76,822	87,610	87,610	87,610	24,499	87,610	87,610	87,610	18,998	*	
Independent Plans²	21,629	12,430	5,929	5,929	5,929	—	5,929	5,929	5,929	4,909	*	
	16,839	19,796	19,177	19,162	18,609	13,636	14,872	16,171	15,412	11,045	13,650	
			Age 65 and over									
Total¹	19,017 ³	13,721 ³	11,053 ³	9,765 ³	7,506 ³	1,132	4,795	4,148	4,790 ³	5,878 ³	*	
Blue Cross and Blue Shield Insurance Companies¹	8,873 ³	8,209 ³	7,495 ³	6,097 ³	4,019 ³	136	1,577	1,093	1,612 ³	4,028 ³	18	
Group Policies ¹	8,877	3,782	2,029	2,029	2,029	398	2,029	2,029	2,029	1,299	*	
Individual Policies	1,819	1,803	1,857	1,857	1,857	398	1,857	1,857	1,857	494	*	
Independent Plans²	7,058	1,979	172	172	172	—	172	172	172	805	*	
	1,267	1,730	1,529	1,639	1,458	598	1,189	1,026	1,149	551	760	
			1976 All Ages									
Total¹	203,336	188,204	186,837	180,819	147,476	39,462	153,865	149,806	147,342	72,138	*	
Blue Cross and Blue Shield Insurance Companies¹	85,528	76,952	74,684	68,438	35,958	4,363	46,253	41,620	37,420	37,023	763	
Group Policies ¹	102,940	93,278	94,818	94,818	94,818	23,994	94,818	94,818	94,818	26,850	*	
Individual Policies	75,944	77,206	88,146	88,146	88,146	23,994	88,146	88,146	88,146	20,475	*	
Independent Plans²	26,996	16,072	6,672	6,672	6,672	100	6,672	6,672	6,672	6,375	*	
	14,868	17,974	17,335	17,563	16,700	11,105	12,794	13,368	15,104	8,265	12,267	
			Under Age 65									
Total¹	186,491	175,546	176,240	171,681	140,947	38,862	148,747	144,932	142,242	66,318	*	
Blue Cross and Blue Shield Insurance Companies¹	76,956	69,100	67,288	62,423	32,479	4,358	44,001	39,480	34,898	33,221	742	
Group Policies ¹	95,967	89,737	92,901	92,901	92,901	23,623	92,901	92,901	92,901	25,481	*	
Individual Policies	74,230	75,501	86,376	86,376	86,376	23,523	86,376	86,376	86,376	19,995	*	
Independent Plans²	21,737	14,236	6,525	6,525	6,525	100	6,525	6,525	6,525	5,486	*	
	13,568	16,709	16,051	16,357	15,567	10,881	11,545	12,551	14,443	7,616	11,401	
			Age 65 and over									
Total¹	16,845 ³	12,658 ³	10,597 ³	9,138 ³	6,529 ³	600	5,118	4,874	5,100 ³	5,820 ³	*	
Blue Cross and Blue Shield Insurance Companies¹	8,572 ³	7,852 ³	7,396 ³	6,015 ³	3,479 ³	5	2,252	2,140	2,522 ³	3,802 ³	21	
Group Policies ¹	6,973	3,541	1,917	1,917	1,917	371	1,917	1,917	1,917	1,369	*	
Individual Policies	1,714	1,705	1,770	1,770	1,770	371	1,770	1,770	1,770	480	*	
Independent Plans²	5,259	1,836	147	147	147	—	147	147	147	889	*	
	1,300	1,265	1,284	1,206	1,133	224	949	817	661	649	866	

¹Persons covered in Administrative Service Only and Minimum Premium Plans (ASO-MPP) are excluded from the categories for total enrollment, insurance company total enrollment and group policy enrollment.

²Independent plans include prepayment and self-insured plans sponsored by community/consumer groups, labor/management, physicians, dentists, optometrists and other health professionals.

³Includes disabled persons under age 65 who are eligible for Medicare.

*Data are not available.

FIGURE 1
1979 Hospital Enrollment by Type of Insurer

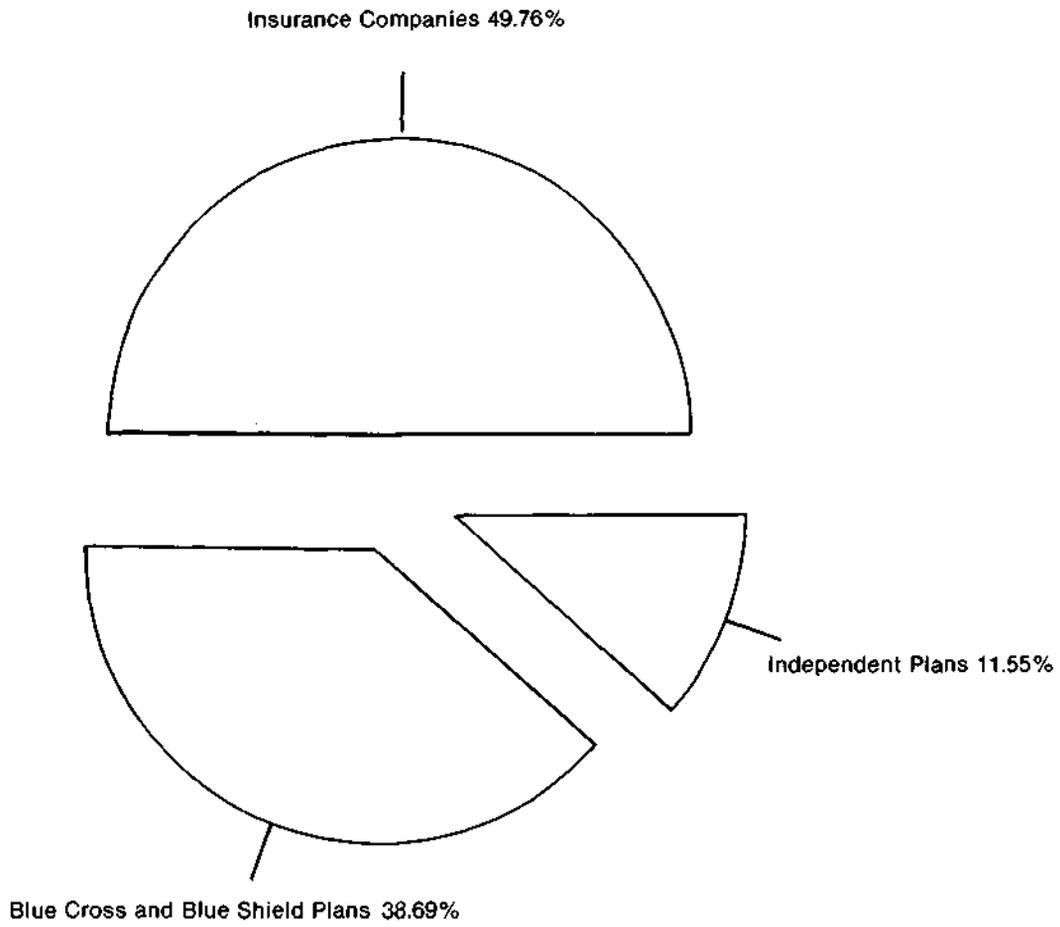


FIGURE 2
1979 Surgical Enrollment by Type of Insurer

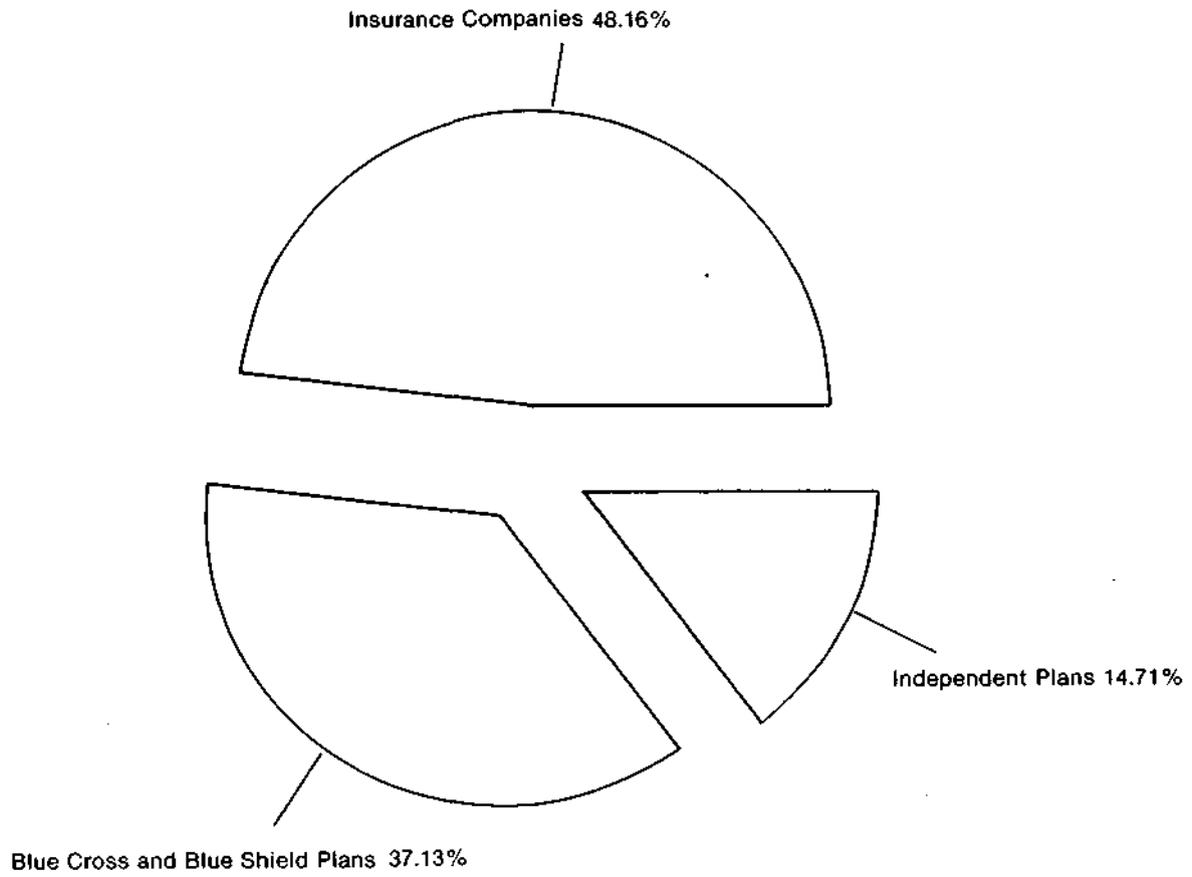


FIGURE 3
1979 Dental Enrollment by Type of Insurer

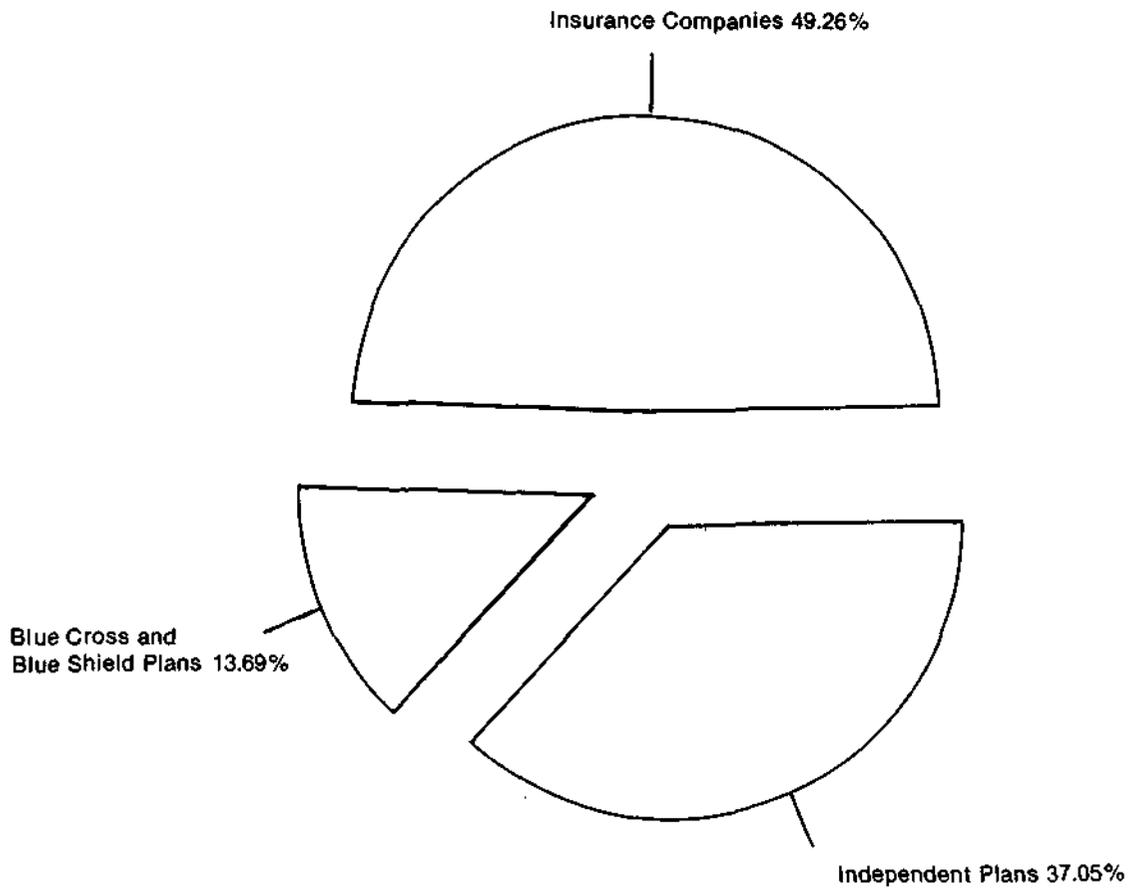


FIGURE 4
1979 Prescribed Drugs Enrollment by Type of Insurer

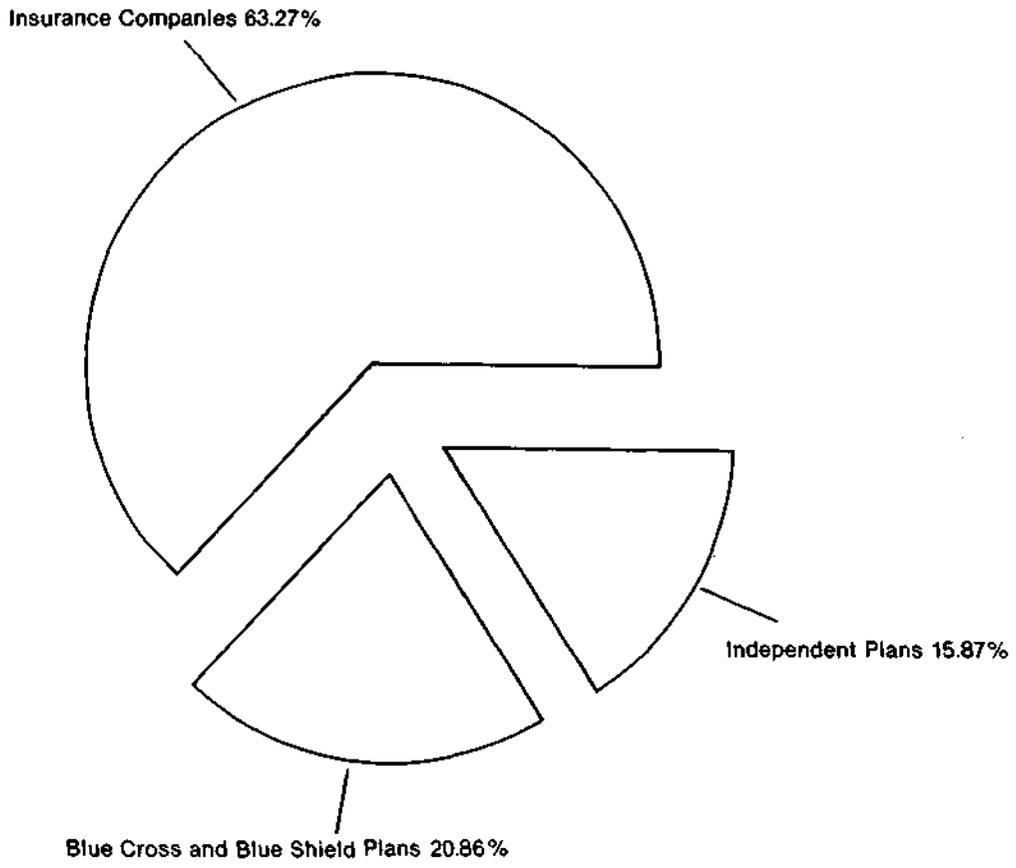


TABLE 3
Percentage Distribution of Total Gross Enrollment Under Private Health Insurance Plans,
by Age, Type of Plan and Specified Type of Care, As of December 31, 1979

Type of Plan	Hospital Care	Physicians' Services				Dental Care	Pre-scribed 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	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Blue Cross and Blue Shield Insurance Companies	38.7	37.1	36.0	38.6	20.3	13.7	20.9	18.2	35.1	54.5
Group Policies	49.8	48.2	49.8	48.0	62.5	49.3	63.3	65.5	52.6	25.5
Individual Policies	34.2	39.2	45.3	44.4	57.8	49.3	58.5	60.5	48.6	19.8
Independent Plans	15.6	9.0	4.5	3.6	4.7	—	4.8	5.0	4.0	5.7
Independent Plans	11.5	14.7	14.2	13.4	17.2	37.0	15.8	16.3	12.3	20.0
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 and Blue Shield Insurance Companies	37.8	35.1	34.0	36.4	18.4	13.4	20.2	17.7	33.0	51.5
Group Policies	50.6	50.3	52.0	50.4	64.9	49.7	64.7	66.6	54.8	27.4
Individual Policies	36.6	41.7	48.1	46.7	60.1	49.7	59.9	61.7	50.8	21.8
Independent Plans	14.0	8.6	3.9	3.7	4.8	—	4.8	4.9	4.1	5.6
Independent Plans	11.6	14.6	14.0	13.2	16.7	36.9	15.1	15.7	12.2	21.1
Age 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 and Blue Shield Insurance Companies	47.4	66.5	65.9	74.6	68.2	23.2	41.7	35.2	75.3	76.4
Group Policies	41.5	16.7	17.4	8.4	13.5	31.2	20.4	26.5	10.6	11.9
Individual Policies	9.7	2.9	3.0	6.5	10.4	31.2	15.7	19.2	8.2	5.2
Independent Plans	31.8	13.8	14.4	1.9	3.1	—	4.7	7.3	2.4	6.7
Independent Plans	11.1	16.8	16.7	17.0	26.3	45.6	37.9	38.3	14.1	11.7

Most of these plans provided comprehensive health care services, providing coverage in 1979 for about 12 percent of the under age 65 population who had hospital insurance, and providing 13-17 percent of the coverage for those insured for various physicians' services and prescribed drugs. Dental coverage (largely by the dental service corporations) represented 37 percent of all persons with dental insurance.

Administrative Service Only (ASO) Agreements and Minimum Premium Plans (MPP)

The gross enrollment figures in Table 2 for insurance company group business and insurance company total business exclude persons covered in insurance company ASO-MPP plans. These persons are properly included in the count of independent plans and other health insurers that are at risk for or underwrite such coverage. Under ASO agreements, an insurance company provides administrative services to another insurance company or to another health insurance organization—an HMO or a self-insured plan, for example. The services include such things as marketing, claims

processing, premium collection, accounting, computing, or consulting for a designated fee, but the insurance company is not at risk for health care benefits. Under MPP plans, the insurance company provides a limited amount of coverage, similar to stop-loss coverage in which the insurance company may pay for all or most of the costs above a given figure for plans that are themselves at risk for the health care benefits of their enrollees.

According to The Health Insurance Association of America (HIAA), in 1979 an estimated 19 million persons insured for hospital and physicians' services were enrolled in plans that used ASO and MPP arrangements. Approximately 22 million persons with major medical coverage were in plans with those arrangements. Dental insurance plans covering almost 14 million persons also used ASO-MPP arrangements. The ASO-MPP proportion of total group coverage reported by the companies was 14 percent in 1977, 12 percent in 1976, 6 percent in 1975, and less than 5 percent prior to 1975. These estimates are excluded from gross enrollment figures published in this article to avoid duplicating the number of persons enrolled for private health insurance coverage.

Changes in the Industry

Growth in Total Enrollments

The growth in the number of enrollments reported by all private insurers for hospital care, surgical services, prescription drugs, and dental care is shown in Table 4. Hospital and surgical coverage grew rapidly in the 1950's when the concept of health insurance was becoming an important fringe benefit in employer-employee negotiations. The growth rate moderated in the 1960's when insurance for other types of care, such as prescription drugs and dental care, was being pursued in contract negotiations. The 1974-1975 recession brought about a loss in job-related health insurance. In 1974, about 70 percent of fulltime workers were in jobs covered by group health insurance. By the fourth quarter of 1975, the rate of unemployment hit a high of 8.3 percent, and by 1976 the eligibility provisions of jointly administered labor-management group health benefit plans were being crucially affected by unemployment rates and adverse economic conditions. Exit lags were running out for laid-off workers, and entry lags had not been cleared for those re-hired. (The exit lag is the period between the date of ineligibility and the date of insurance termination. The entry lag is the period between the date of eligibility and the date health insurance becomes effective). Purchase of individual policies also dropped off during this period. As a result of these conditions, gross enrollments for hospital care fell by several million in 1976. During the next two years the unemployment rate lessened, dropping to 6.6 percent by the end of the fourth quarter of 1977 and falling to 5.8 percent at the end of 1978. This drop in the unemployment rate was a factor in the growth of private insurance for both hospital and surgical care in 1977 and 1978. Another factor was the strong growth in coverage for the elderly. Enrollments rose 17.3 percent, compared with a 4.8 percent rise in the over age 65 population. By 1979, total enrollments for hospital insurance in all plans reached 220.8 million, and 197.8 million for surgical services.

The insurance companies experienced the same general trends in growth as did the overall industry. For Blue Cross-Blue Shield plans, however, the growth rate from 1950 to 1975 was slower, and in recent years they have actually experienced declines for many services. Beginning in 1976, enrollments fell for hospital care, physicians' services, prescribed drugs, and nursing home care, as the number of dependents in the under 65 age group declined because of fewer children. Enrollment growth was concentrated in the more recently negotiated health care benefits for the work force and their dependents—dental care (18 percent), vision care (112 percent), and visiting nurse service (7 percent). The years 1978 and 1979 showed little or no growth in hospital coverage for this age group, and enrollments for surgical care and prescribed drugs continued to decline. At the same time, Blue Cross and Blue Shield coverage for visiting nurse service and nursing home care rose rapidly (53 percent and 74 percent, respectively), in this 2 year period, compared to overall increases of 21 percent and 51 percent in the industry for those services.

Growth in the independent plans has been accelerating since the mid-seventies, when the Health Maintenance Organization (HMO) development began to stimulate the expansion of community/consumer sponsored plans and plans sponsored by health professionals. From June 1976 to June 1979, HMO enrollment grew at the rate of 11 percent per year. The AMA's Division of Survey and Data Resources preliminary data from the 1980 Census survey of medical group practice in the United States indicate that 77 physician groups derived 100 percent of the total group revenue from prepaid contracts. Although this number represented less than 1 percent of all group practices, it showed a 135 percent increase over the number of prepaid group practices in 1975, which is a significant trend. Another important factor was the trend toward self-funding—employers in increasing numbers turned away from traditional insurance company policies, and instead self-insured their employees for health care costs, either administering the plan themselves or hiring administrative companies or insurance companies for these services. About a third of labor-management plans are believed to be self-insured. In addition, at the beginning of 1980, 13 States had set up self-insured health plans covering State employees. These State employer plans were not as generous in their benefits nor as comprehensive in range of services as either labor-management plans in private industry, or independent plans generally, but they did show a similar trend to self-insurance as was occurring among their employer counterparts in industry.

Major Medical Coverage

In 1948, insurance companies began to write a new type of medical care expense insurance known as major medical. Major medical plans provide broad protection against a wide range of health care expenses as well as substantial protection for large, unpredictable medical expenses. Supplementary major medical plans supplement basic health care plans; comprehensive major medical plans integrate in one plan both basic protection and coverage against catastrophic expenses. Major medical plans require the payment of a deductible by the insured person and provide for cost-sharing or co-insurance for other costs. The insured person usually pays 20-25 percent and the insurer 75-80 percent of such costs. Major medical coverage of the population has grown rapidly over the years. It has also extended the range of services covered and raised the maximum benefit levels.

In 1979, an estimated total of 16.1 million enrollments were reported in insurance company supplementary major medical and comprehensive major medical policies, in Blue Cross and Blue Shield major medical plans, and in comprehensive independent prepaid and self-insured health plans (Table 5). In 1970, enrollments in the insurance companies and Blue Cross and Blue Shield major medical plans totaled 109 million persons. No comparable figures are available for independent comprehensive plans for years before 1975. The Health Insurance Association of America estimated the net number of different persons protected by major medical plans was 103.5 million in 1970 and 147.6 million in 1979.

TABLE 4
Gross Enrollment Under Private Health Insurance Plans, by Type of Plan, 1950-1979
(in Thousands)

End of Year	All Plans	Blue Cross and Blue Shield			Insurance Companies			Independent Plans
		Total	Blue Cross	Blue Shield	Total	Group Policies	Individual Policies	
Hospital Care								
1950	81,691	37,645	37,435	210	39,601	22,305	17,296	4,445
1960	140,055	57,464	55,938	1,526	76,597	54,416	22,181	5,994
1970	190,758	75,464	72,942	2,522	107,163	80,505	26,658	8,131
1975	210,976	85,762	83,179	2,583	112,069	81,954	30,115	13,145
1976	203,336	85,528	83,054	2,474	102,940	75,944	26,996	14,868
1977	208,333	85,101	83,153	1,948	105,126	76,439	28,687	18,106
1978	218,509	85,348	82,950	2,398	111,672	75,621	36,051	21,489
1979	220,753	85,409	83,150	2,259	109,842	75,458	34,384	25,502
Surgical Services								
1950	55,950	17,253	1,151	16,102	34,937	21,219	13,718	3,760
1960	127,091	48,266	3,773	44,493	71,489	55,464	16,025	7,336
1970	179,152	69,110	3,874	65,236	99,510	81,549	17,961	10,532
1975	194,714	77,803	4,699	73,104	101,149	82,681	18,468	15,762
1976	188,204	76,952	4,629	72,323	93,278	77,206	16,072	17,974
1977	189,939	75,379	4,848	70,531	93,034	78,625	14,409	21,526
1978	193,994	74,398	4,611	69,787	94,566	77,824	16,742	25,030
1979	197,838	73,458	3,832	69,626	95,274	77,572	17,702	29,106
Prescribed Drugs (out-of-hospital)								
1950	69,632	10,800			56,100	51,700	4,400	2,732
1960	105,885	25,627			75,437	70,396	5,041	4,821
1970	155,236	46,122			98,230	90,915	7,315	10,884
1975	153,865	46,253			94,818	88,146	6,672	12,794
1976	152,837	41,208			95,568	89,467	6,101	16,061
1977	153,914	38,451			95,738	88,848	6,890	19,725
1978	152,687	31,852			96,609	89,296	7,313	24,226
Dental Care								
1950	4,227	16			2,000	2,000		2,211
1960	12,041	273			7,454	7,383	71	4,314
1970	29,494	3,320			17,884	17,800	84	8,290
1975	39,462	4,363			23,994	23,894	100	11,105
1976	44,414	5,283			24,897	24,897	—	14,234
1977	53,825	5,922			30,076	30,076	—	17,827
1978	60,269	8,251			29,691	29,691	—	22,327

¹Data are not available.

TABLE 5
Gross Enrollment in Major Medical and Comprehensive Major Medical Policies of Insurance Companies, in Blue Cross and Blue Shield Major Medical Plans, and in Comprehensive Prepaid and Self-Insured Independent Plans, 1960-1979
(in thousands)

End of Year	All Plans	Insurance Companies			Blue Cross and Blue Shield	Independent Plans
		Total	Group	Individual		
1960	¹	28,061	26,454	1,607	¹	¹
1965	¹	59,868	55,412	4,456	¹	¹
1970	¹	87,376	81,962	5,414	21,658	¹
1975	146,893	98,230	90,915	7,315	39,172	9,491
1976	143,000	94,818	88,146	6,672	37,026	11,156
1977	148,963	95,568	89,467	6,101	39,390	14,005
1978	152,256	95,738	88,848	6,890	39,317	17,201
1979	161,458	96,609	89,296	7,313	43,724	21,125

¹Data are not available.

In its annual survey of group insurance policies, the Health Insurance Institute (HII) found that 92 percent of the persons with such insurance had maximum benefits of \$100,000 or more in 1979, compared with 24 percent in 1973. HII also found that 50 percent of the employees surveyed who had comprehensive major medical insurance, and 31 percent of those with supplementary major medical coverage, had a maximum limit of under \$1,000 on out-of-pocket expenses for surgical care in a benefit year.

During the period 1976-1979, group major medical policies provided about 89 million persons with some level of benefits for physicians' in-hospital visits, x-ray and laboratory examinations, physicians' home and office visits, prescribed drugs, and nursing services. Individual major medical insurance policies provided benefits for similar services for 6 to 7 million persons.

Major medical policies covered just under a million aged persons in 1978 and 1979, a drop from 2 million in 1977. No separate figures for this age group are available for Blue Cross and Blue Shield plans or for the independent plans.

Blue Cross' basic policies generally offered many of the services found in major medical policies. Beyond their basic plans, Blue Cross offered supplementary coverage subject to deductibles and coinsurance, with maximum benefits varying from \$5,000 to an unlimited amount of extended benefits for the following services: physicians and other health care professionals; prescribed drugs; diagnostic x-ray and laboratory services; nursing home care; home health services; ambulance transportation; prosthetic and orthopedic devices; durable medical equipment; medical supplies; blood; psychiatric treatment; drug addiction; and alcoholism.

Blue Shield plans were comprehensive health care programs consisting of 20 broad benefit areas. Dental care, vision care, and hearing care were new areas of coverage being developed. A majority of the plans also offered supplementary major medical coverage to help pay for the costs of prolonged or catastrophic illnesses.

Independent prepaid and self-insured health plans generally offered a comprehensive range of health care services. Health care maintenance organizations usually fall in this independent plan category. Independent plans are considered to provide major medical protection because of their comprehensive range of benefits and the prepaid delivery of health care services as needed. With the rapid growth of self-insured labor-management plans and the increasing number of health maintenance organizations, the number of persons with major medical protection in independent plans reached approximately 17 million in 1978 and rose to 21 million in 1979.

Quality of Coverage

Coverage and enrollment statistics do not provide a total picture of health insurance protection. Coverage can mean a narrow or a comprehensive range of benefits, a large deductible and low co-insurance by the insurer, or 100 percent reimbursement by the insurer for health care costs. The range of services and the degree to which benefit payments meet the cost of

these services provide a measure of the quality of insurance coverage. Employer payment of insurance premiums is also a factor.

We can obtain some measurement (in monetary terms) of the relative depth or extensiveness of coverage provided by the different types of insurers in 1979 by comparing their expenditures per person enrolled for specified benefits, as the following table illustrates.

**Average Benefit Expenditure per Enrollee
by Type of Care and by Type of Insurer, 1979**

<u>Benefits</u>	<u>Average Benefit Expenditure per Enrollee</u>
<u>Hospital Care</u>	
Blue Cross and Blue Shield Insurance Companies	\$170.81
Group Policies	109.36
Individual Policies	134.20
Independent Plans	54.85
All Plans	138.40
<u>Physicians' Services</u>	
Blue Cross and Blue Shield Insurance Companies	\$78.36
Group Policies	61.88
Individual Policies	66.41
Independent Plans	42.04
All Plans	99.69
<u>Dental Care</u>	
Blue Cross and Blue Shield Insurance Companies	\$41.05
Group Policies	50.04
Individual Policies	50.04
Independent Plans	—
All plans	48.19
<u>Prescribed Drugs</u>	
Blue Cross and Blue Shield Insurance Companies	\$15.91
Group Policies	5.04
Individual Policies	5.39
Independent Plans	.75
All Plans	23.21
	10.19

Since utilization rates per enrollee were probably similar, the higher Blue Cross and Blue Shield and Independent plans' average expenditures for hospital care indicate that generally these plans provided more days of coverage and more comprehensive coverage of hospital costs than the group coverage of insurance companies. The meager coverage of individual insurance company plans is also apparent. Although the average hospital expenditure by independent plans is lower than that for Blue Cross and Blue Shield plans, this does not in itself indicate less extensive coverage. Rather, the relatively low utilization rates by community/consumer sponsored group practice plans tend to hold down the average hospital expenditure of all

independent plans. Benefit expenditures per enrollee for physicians' services reflect the fact that independent plans generally provided the most comprehensive coverage for physicians' services (all needed service in office, home, and hospital) and prioritized those services over hospital care. The relatively high average benefit expenditure of independent plans for prescribed drugs would indicate that the majority of these plans provided first dollar coverage instead of the deductibles and cost-sharing arrangements commonly found in Blue Cross and Blue Shield plans and in insurance company group policies.

Group Insurance Policies

The HII's sample survey of group health insurance policies during the first 3 months of 1979 provides some measure of the quality of new and revised group policies sold by insurance companies. The sample consisted of 3,451 new or revised cases representing 291,179 employees and an estimated 317,010 dependents, for a total of 608,189 individuals. In 1979, 31 percent of the employees in the survey had their premiums paid entirely by their employers; 7 percent had to pay their own premiums. The cost was shared by the employer and the employee for the remaining 62 percent of the employees surveyed. This cost sharing was a sharp change from the previous two years when employers paid the entire premium for 61 percent of the employees surveyed (1978) and for 59 percent of the employees surveyed (1977).

The drop was accounted for, in part, by the change in the composition of the sample. Each company was instructed to report all new cases for large groups (500 or more employees) and a random sample of its remaining new cases, for a total of 250 plans. The 1979 survey found that employees in new or revised large plans represented 54 percent of employees surveyed, whereas in 1978 they represented 71 percent of employees surveyed. Moreover, only 30 percent of employees in new or revised large plans were in non-contributory plans in 1979, compared with 71 percent in 1978.

The apparent shift away from full contributions by the employer in new or revised plans does not show up when new (and revised) plans and previously established health plans are looked at together. In 1979, a Department of Labor study of 21 million employees in 1469 existing plans in industry found that, of the 97 percent of employees who were covered by a health insurance plan, 73 percent of them were in non-contributory plans.

The level of insurance benefits for hospital room and board charges is probably the most important concern of the wage earner and his family. Among all employees with basic hospital insurance who were surveyed in 1979, 9 percent had basic coverage only. The remaining 91 percent had basic plus major medical coverage. Basic hospital coverage is usually characterized by maximum daily room and board benefits, by maximum number of days of confinement, and by maximum miscellaneous hospital expense benefits. The median maximum daily benefit for those surveyed who either had basic coverage alone, or combined with major medical insurance, was \$84. Twenty-eight

percent of the employees were subject to a maximum number of hospital days ranging from 30 to 79. Those without major medical insurance faced two risks: one, benefits provided in the basic policy might be exhausted, (for example, the number of hospital days); and two, benefits paid by the basic plan are likely to be less than actual charges for services.

Nervous and mental disorder benefits were provided for 85 percent of employees with comprehensive major medical coverage, but less than half of them were covered for full plan benefits. Among the latter group, only a fifth of the employees were covered if the disorders were treated outside hospital confinement. Among those with supplementary major medical coverage of nervous or mental disorders, only 2 percent were covered for full plan benefits if treatment occurred outside a hospital.

Employees surveyed had other benefit limitations as well. Only 39 percent had nursing home or extended care facility coverage, with more than half of this number subject to a maximum of less than 70 days of coverage and to maximum daily benefit levels. Only 15 percent of the employees surveyed had home health coverage including physician, nursing and therapy services, instead of hospitalization or confinement in an extended care facility.

In 1979, about 35 percent of the employees surveyed had dental coverage, compared with 31 percent in 1978 and 21 percent in 1977. Seventy-five percent of those with dental insurance had comprehensive coverage subject to deductibles and co-insurance; almost 40 percent of this group had maximum annual benefits of \$1,000 or more, or no limit.

Individual Insurance Policies

Individual (nongroup) policies almost always provide less economic protection than that provided by group insurance. Individual policies usually give only token protection against today's hospital costs. Reasons for the low benefit levels are: (1) the high cost of selling and administering these policies—about half the premium goes for these expenses, and (2) there is a need to keep the premium as low as possible so that the individual can afford the policy without employer contributions. Individual hospital policies outsold individual surgical policies almost 2 to 1 in 1979. For the elderly, the ratio was almost 4 to 1. For 1978 these ratios were about the same. Individual policies usually pay fixed amounts per day in the hospital or fixed amounts per surgical procedure, or both. Individual policy holders faced relatively large out-of-pocket expenses as a result of low reimbursement limits, and a narrow range of benefits, exclusions, and limitations, such as waiting periods and pre-existing conditions.

In 1979, the Health Association of America (HIAA) reported an estimated 28 million enrollees under age 65 with individual policies covering hospitalization. Of these, 11 million were hospital indemnity policies. The remaining 17 million also covered surgical or physicians' expense, or major medical expense, or all of these categories. These 17 million persons were less likely to suffer catastrophic losses for hospital-related care and had some level of protection against the cost of physicians' office visits, x-ray and laboratory ex-

ams, prescribed drugs, and nursing services. However, if major medical policies place no limit on policyholder cost sharing, an employee may incur catastrophic expenses through high co-payments. Heavy expenses may also be incurred for any noninsured services such as nursing home care, psychiatric care, dental care, or prescribed drugs. Those age 65 and over bought proportionately more hospital indemnity policies than hospital/medical expense policies. Individual coverage was down slightly from 1978 for both age groups.

Blue Cross and Blue Shield Plans

Blue Cross basic contracts provided service benefits rather than cash indemnities, (for example, hospitals and other providers were paid directly by the plan instead of payment to the subscriber of a fixed dollar amount). In addition, most Blue Cross plans provided extended benefits with variable front-end deductibles and 80 percent co-insurance for physicians' services and other professional services, nursing home care, home health services, prescription drugs, durable medical equipment, nursing services, x-ray and laboratory services, blood transfusions, and treatment of mental conditions, alcoholism, and drug addiction.

Blue Shield plans covered more than half of their enrollees (56 percent in 1979 and 55 percent in 1978) under their Usual, Customary and Reasonable (UCR) program, in which payments to physicians are based upon their usual and customary fee in the locality in which they practice, as opposed to the traditional indemnity payment—the allowance of a fixed dollar amount toward the physician's charge. Payments by these Blue Shield plans were usually subject to deductibles and coinsurance payments, however.

Persons Without Private Health Insurance

The Under-Age-65 Group

Estimates for the years 1978 and 1979 show that about 40 million persons under age 65 had no private insurance against the costs of hospital-related illnesses. Many of these persons were self-employed and chose not to buy insurance; others worked for small, low wage-paying employers and could not afford to buy insurance on their own. Some were in bad health and could not obtain insurance, or were disabled and not eligible for Medicare because of the 24 month waiting period, or were ineligible for Medicaid, and unable to purchase private insurance. Another group was made up of certain workers affected by eligibility provisions in labor-management plans—the unemployed whose exit lags had expired, and the newly employed whose entry lags had not been cleared. Still others were receiving assistance in meeting their medical expenses through such public programs as Medicare, Medicaid, Champus, the Veterans Administration, and Workers' Compensation. Approximately 2.8 million disabled persons under age 65 were covered by the hospital insurance (HI) program of

Medicare and 2.6 million were covered by the supplementary medical insurance (SMI) program as of January 1, 1979.

According to unpublished data, the Medicaid program made medical assistance payments to 18.2 million persons under age 65 in fiscal year 1979, down from 18.8 million in fiscal year 1978. State and Federal workers' compensation programs covered 75.5 million persons for work-related medical expenses in 1978, and 78.5 million in 1979.

According to the 1978 Household Interview Survey conducted by the National Center for Health Statistics (NCHS), about 23.2 million persons under age 65 had no public or private insurance coverage.

The Elderly

In 1979, an estimated 9 million of the aged had no private hospital insurance; 14 million had no private surgical insurance. However, virtually all of the aged had coverage for these services under the Medicare program (23.8 million for hospital insurance, and 23.6 million for medical care). For prescription drugs or private duty nursing, more than 20 million of the aged had no insurance protection, either through private insurance or through the Medicare program. The NCHS Survey found that, in 1978, only 530,000 of the aged were not covered by either private health insurance or Medicare, and only 253,000 were not covered by any of the 4 plans—private insurance, Medicare, Medicaid, or Veterans Administration.

Financial Experience

The discussion that follows provides financial information on the three major types of insurers: insurance companies that sell health insurance; Blue Cross and Blue Shield plans; and independent prepayment and self-insured or self-funded plans. Health maintenance organizations (HMO's) that provide and are at risk for health care services to their members are included in the independent plans category.

Claims expense and operating expense are measured against premium and subscription income to show the net underwriting gain or loss and other operating results, for example, the proportion of premiums returned as benefits (the claims ratio), and the amount retained for operating expenses, additions to reserves, and profits. All data are on an incurred or accrual basis.

We present retentions as a percent of subscription or premium income for the period 1950 to 1979 by type of insurer. Also, for the period 1950 to 1979, we show *per capita* consumer expenditures for health insurance, average premium expenditure per person covered, and the percent of national disposable personal income spent for health insurance.

Industrywide Experience

In 1979, the private health insurance industry collected \$55.9 billion in premiums and subscriptions, a 12.4 percent increase over the \$49.7 billion collected

in 1978 (Table 6). An estimated 87.0 percent of the premiums were paid by employer contributions in 1979, compared with 86.0 percent in 1978.

The insurers returned 89.8 percent of the 1979 premium total in the form of \$50.2 billion in benefits, down slightly from the 90.6 percent claims ratio in 1978. Operating expenses for 1979 were \$7.1 billion and when added to benefit expenditures resulted in a \$1.4 billion net underwriting loss, a slight improvement over the \$1.5 billion net underwriting loss of 1978.

After what appeared to be improving conditions in 1977, the private health insurance industry returned to substantial net underwriting losses in 1978 and 1979. These losses continue a trend that extends back at least as far as 1965 with interruptions (that is, underwriting gains) only in 1972 and 1973. The immediate reasons for the trend are clear upon viewing the percentage change in industry premiums and benefits over time (see text table). Premium growth has been reasonably constant over the period, growing at an average annual rate of 14.4 percent, during the post Medicare, Medicaid period (1967 to present) with a standard deviation of ± 2.3 percentage points. On the other hand, growth in benefits (14.7 percent) was slightly higher than premiums and has fluctuated more radically, with a standard deviation of ± 4.2 percentage points. Only in years when benefit growth has been slowed, such as in the early 1970's with the Economic Stabilization Program (ESP), has the industry shown underwriting gains, those of 1972 and 1973.

The percentage change in benefits and in the Consumer Price Index (CPI) for medical care move together quite closely, although the two series are at different magnitudes. During the "ESP" years the rate of growth in both series was reduced. After the "caps" were removed, both series experienced an acceleration in growth rates. These findings are not surprising, especially given that the two series are closely interrelated, but they point out the major role of prices in health care expenditures. Finally, given the 1980 movement in the CPI, if the relationship between the two series holds true, one would expect an increase in benefit growth in 1980.

Operating expenses as a percent of premiums have been steady during the 1975 to 1979 period, ranging from 12.2 to 12.9 percent.

Net cost, the difference between premiums and benefits, remained essentially unchanged from 1977 to 1978, going from \$4.6 to \$4.7 billion, a .9 percent increase. However, in 1979 net costs increased by 22.3 percent to a \$5.7 billion level. The 1979 increase was caused by the relatively faster growth in premiums, 12.4 percent, than in benefits, 11.4 percent, a virtual reversal of the 1978 relationship between the two—11.4 percent growth in premiums and 12.6 percent growth in benefits.

Percentage Change in Industry Premiums and Benefits Over Time

	Percentage Change		
	Premiums	Benefits	CPI Medical Care
1967	—	—	—
1968	16.0	14.3	6.1
1969	13.4	17.8	6.9
1970	17.0	20.5	6.4
1971	14.1	10.9	6.5
1972	14.8	10.2	3.2
1973	11.1	10.5	3.9
1974	11.8	16.0	9.3
1975	16.8	22.9	12.1
1976	17.7	18.0	9.5
1977	16.9	12.8	9.5
1978	11.4	12.6	8.4
1979	12.4	11.4	9.3
1980	NA	NA	10.9

Premium growth relative to benefits, along with steady operating expenses, led to a lessening of net underwriting losses in 1979 (\$ - 1.4 billion down from \$ - 1.5 billion). Were it not for the expected effect of price increases in 1980, the 1979 developments would point to a possible recovery year in 1980.

Insurance Companies

Insurance companies reported a total of \$23.0 billion in premium income in 1979, 41.2 percent of the industry total and a 10.4 percent increase over their 1978 premium earnings of \$20.9 billion. Group policy premiums, which comprised 82.1 percent of the insurance company premium total, increased at a slightly faster pace (10.7 percent). Individual policy business rose 8.9 percent, a significant increase over the 1978 growth of 5.6 percent.

The 1979 premium data show a continuance of the insurance companies' slow decline in terms of the health insurance industry's business, as seen in the table entitled, Percentage of Health Insurance Business. The decline began in 1968 when companies reported 53.6 percent of the industry's premium total. While some business has been lost to the Blue Cross and Blue Shield Associations, most of the companies' business has been lost to the independent prepaid and self-insured health plans. To some extent the companies have been able to offset this loss of business through their Administrative Service Only (ASO) and Minimum Premium Payment (MPP) contracts (see later discussion of ASO-MPP).

Percentage of Health Insurance Business

Year	Blue Cross & Blue Shield	Insurance Companies	Independent Plans	Total
1965	41.7	52.2	6.1	100.0
1966	41.0	52.9	6.1	100.0
1967	41.1	52.7	6.2	100.0
1968	40.3	53.6	6.1	100.0
1969	42.2	51.4	6.4	100.0
1970	43.2	50.5	6.3	100.0
1971	45.1	48.4	6.5	100.0
1972	44.4	49.4	6.2	100.0
1973	44.5	48.1	7.4	100.0
1974	44.5	47.4	8.1	100.0
1975	44.5	45.8	9.7	100.0
1976	45.2	43.9	10.9	100.0
1977	43.8	43.4	12.8	100.0
1978	43.4	42.0	14.6	100.0
1979	42.0	41.2	16.8	100.0

The benefit payments or claims expense for insurance companies grew at a much slower pace in 1979 than in 1978. The overall claims in 1979 were \$20.1 billion, with group claims of \$17.4 billion and individual claims of \$2.7 billion. Their respective growth rates over 1978 were 5.7, 6.5 and 1.1 percent for all policies, group policies, and individual policies.¹ Insurance claims in 1978 totaled \$19.1 billion, with group policies comprising 86 percent or \$16.4 billion of the total and individual policies comprising the remaining \$2.7 billion. Total claims grew at a 10.8 percent rate over the 1977 level, with group policies growing at a 7.2 percent rate and individual policies growing at a surprising 38.5 percent rate.²

Claims grew at only half the rate that premiums increased in 1979. Nonetheless, insurance companies suffered a net underwriting loss in 1979. When claims expenses were combined with \$4.7 billion in operating expenses and deducted from premiums, the result was a net underwriting loss of \$1.8 billion, a slight improvement over the \$2.4 billion underwriting loss in 1978. Operating expenses rose at 15.0 and 17.0 percent in 1978 and 1979, respectively, yet remained fairly constant as a percent of premiums, 20.0 in 1978 and 20.3 in 1979.

¹Insurance company claims are reported by HIAA on a paid rather than incurred basis. Claims incurred in any given year are equal to the claims paid for that year plus thirty percent of the difference between the claims paid in the current year and in the preceding years. HIAA developed and derived this conversion method based on several years of data. It is subject to the variability inherent in a static formula applied to a dynamic environment.

²Individual policies have exhibited an erratic growth pattern over the past few years. However, the 1978 and 1979 patterns are extraordinary enough to lead one to suspect some sampling errors in HIAA's survey.

The insurance companies have a long history of net underwriting losses in their health insurance business, extending back at least as far as 1965, and as mentioned before, 1978 and 1979 were no exceptions, with losses of \$-2.4 and \$-1.8 billion. Two factors help explain how this situation has continued to exist for so long. First, due to competitive conditions, companies have to consider forces other than benefit and administrative costs when setting premiums. Premium rates that reflect costs may be too high to be competitive, with the subsequent loss of some large corporation or union contracts that include the insurance company's more profitable lines of business such as loss of income, dread disease, accidental death and dismemberment, and most important of all, the life and casualty lines. Probably a more significant factor is that companies are able to finance their losses in part by cash flow underwriting, (that is, the investment income companies earn on premium dollars before they are paid out for benefits and administration), and in part by subsidizing health insurance through other lines of insurance. No information is available on the investment income earned by insurance companies from their hospital and medical expense business, as separate from their health insurance business, including loss of income line, but presumably this income has been large enough over time to help compensate for their net underwriting losses.

Administrative Service Only (ASO) Agreements and Minimum-Premium Plans (MPP)

Insurance company premiums and claims data reported by the HIAA include Administrative Service Only Agreements and Minimum Premium Plans. Since 1975, the HIAA has reported the ASO-MPP data separately from data for regular business.

As explained earlier, under ASO agreements the insurance company provides administrative services to another health insurance organization, but it is not at risk for the provision of health benefits to the persons covered by that plan. Minimum premium plans are insurance policies containing a risk-sharing agreement under which an insurance company assumes responsibility for a given employer's or insurance organization's health plan costs, after a specified maximum dollar limit (usually set at expected costs) has been met by the employer or insurance organization plan. The premium is minimal because the employer or plan has the liability for payment of the bulk of the claims. The employer or plan pays only for the tax, risk, and profit charges related to the insurance company's share of the liability. This type of plan is used occasionally by relatively small health plans to protect against some unusually heavy loss, but is primarily used by large employers, because of its fiscal advantages—avoidance of State premium taxes, tax exempt interest earnings accruing on any reserves maintained, and cash flow flexibility.

TABLE 6
Financial Experience of Private Health Insurance Organizations, 1975-1979
(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
1979										
Total		\$55,859.0	\$50,175.6	89.8	\$7,116.3	12.7	-\$1,432.9	-2.6		-
Blue Cross and Blue Shield	\$24,077.8	23,471.1	21,723.8	92.6	1,716.1	7.3	31.2	.1	\$637.9	2.6
Blue Cross			15,395.7	-		-		-		-
Blue Shield			6,328.1	-		-		-		-
Insurance Companies ²		23,035.0	20,144.8	87.5	4,673.3	20.3	-1,783.1	-7.7		-
Group Policies ³		18,914.0	17,451.6	92.3	2,840.4	15.0	-1,378.0	-7.3		-
Individual Policies		4,121.0	2,693.2	65.4	1,832.9	44.5	-405.1	-9.8		-
Independent Plans ³	9,498.7	9,352.9	8,307.0	88.8	726.9	7.8	319.0	3.4	464.8	4.9
1978										
Total		\$49,692.4	\$45,044.2	90.6	\$6,194.1	12.5	-\$1,545.9	-3.1		-
Blue Cross and Blue Shield	\$21,941.3	21,547.4	19,465.2	90.3	1,502.4	7.0	579.8	2.7	\$973.7	4.4
Blue Cross			13,490.8	-		-		-		-
Blue Shield			5,974.4	-		-		-		-
Insurance Companies ²		20,866.5	19,056.8	91.3	4,168.5	20.0	-2,358.8	-11.3		-
Group Policies ³		17,082.5	16,393.5	96.0	2,427.7	14.2	-1,738.7	-10.2		-
Individual Policies		3,784.0	2,663.3	70.4	1,740.8	46.0	-620.1	-16.4		-
Independent Plans	7,392.0	7,278.5	6,522.2	89.6	523.2	7.3	233.1	3.2	346.6	4.7
1977										
Total		\$44,618.6	\$40,013.4	89.7	\$5,463.6	12.2	\$- 858.4	-1.9		-
Blue Cross and Blue Shield	\$19,857.8	19,553.4	17,626.2	90.1	1,330.3	6.8	596.9	3.1	\$901.3	4.5
Blue Cross	13,801.6	13,606.3	12,473.7	91.7	693.9	5.1	438.7	3.2	634.0	4.8
Blue Shield	6,056.2	5,947.1	5,152.5	86.6	636.4	10.7	158.2	2.7	267.3	4.4
Insurance Companies ²		19,335.0	17,206.2	89.0	3,752.1	19.4	-1,623.3	-8.4		-
Group Policies ³		15,752.0	15,283.8	97.0	2,110.8	13.4	-1,642.6	-10.4		-
Individual Policies		3,583.0	1,922.4	53.7	1,641.3	45.8	19.3	.5		-
Independent Plans ³	5,819.5	5,730.2	5,181.0	90.4	381.2	6.7	166.0	2.9	257.3	4.4
1976										
Total		\$38,171.5	\$35,470.6	92.9	\$4,789.3	12.5	\$- 2,088.4	-5.5		-
Blue Cross and Blue Shield	\$17,560.1	17,268.1	16,226.5	94.0	1,192.8	6.9	- 151.2	- .9	\$140.8	.8
Blue Cross	12,242.9	12,037.4	11,624.9	96.6	623.3	5.2	- 210.8	- 1.8	- 5.3	- .1
Blue Shield	5,317.2	5,230.7	4,601.6	88.0	569.5	10.9	59.6	1.1	146.1	2.7
Insurance Companies ²		16,752.0	15,492.7	92.5	3,323.1	19.8	-2,063.8	-12.3		-
Group Policies ³		13,470.0	13,761.5	102.2	1,788.3	13.3	-2,079.8	-15.4		-
Individual Policies		3,282.0	1,731.2	52.7	1,534.8	46.8	16.0	.5		-
Independent Plans ³	4,231.5	4,151.4	3,751.4	90.4	273.4	6.6	126.6	3.0	206.7	4.9
1975										
Total		\$32,437.1	\$30,072.4	92.7	\$4,192.9	12.9	\$- 1,828.2	-5.6		-
Blue Cross and Blue Shield	14,684.7	14,446.4	14,192.0	98.2	1,063.0	7.4	- 808.8	-5.6	- 570.3	-3.9
Blue Cross	10,225.0	10,080.6	10,075.9	100.2	557.1	5.5	- 572.4	-5.7	- 408.0	-4.0
Blue Shield	4,459.7	4,365.8	4,116.1	93.9	505.9	11.5	- 236.2	-5.4	- 162.3	-3.6
Insurance Companies ²		14,849.0	13,157.3	88.6	2,907.2	19.6	-1,215.5	-8.2		-
Group Policies ³		11,779.0	11,588.3	98.4	1,491.9	12.7	-1,301.2	-11.0		-
Individual Policies		3,070.0	1,569.0	51.1	1,415.3	46.1	85.7	2.8		-
Independent Plans ³	3,194.9	3,141.7	2,723.1	86.7	222.7	7.1	195.9	6.2	249.1	7.8

¹Data are not available.

²The categories "insurance companies" and "group policies" exclude data for administrative service only (ASO) and minimum premium plans (MPP) insurance company business.

³Independent plans include prepayment and self-insured plans sponsored by community/consumer groups, labor/management, physicians, dentists, optometrists and other health professionals.

The inclusion of ASO business in the insurance company data results in an overstatement of the overall industry's premiums and claims. Persons enrolled in these plans are counted twice; insurance companies count the enrollees of the plans they administer, and these persons are also reported by the plans that actually insure or provide the health care services. Thus, premiums and claims expenses for these persons are doubly reported. Unfortunately, no source is currently able to separate the "at risk" portion of the insurance companies' MPP business from the reported MPP total.

Because the amount of overstatement resulting from the inclusion of ASO-MPP insurance company data far exceeds the potential underestimate due to excluding the companies' "at risk" business for MPP, HCFA has excluded ASO-MPP data from its tables for the overall private health insurance industry. ASO-MPP business is fully recognized, however, as a growing phenomenon in the industry.

As the table entitled, Comparison of Insurance Company Regular and ASO-MPP Business shows, though the rates of growth are slowing, ASO-MPP business has increased much more rapidly than regular business, growing from 8 percent of total insurance company hospital/medical expense and dental care business in 1975 to 21 percent in 1979. Finally, the strong movement towards self-funding should cause continued growth in ASO-MPP business.

Blue Cross and Blue Shield Plans

The 1978 and 1979 financial picture for Blue Cross and Blue Shield plans can be generally characterized

as sluggish and slightly down. The rates of growth in subscriptions and benefits continued a deceleration started in the 1975 and 1976 period. Their share of the industry's business, 42.0 percent of total subscription and premium income, is down from a 1976 peak of 45.2 percent. We attribute a good deal of this sluggishness to basically static enrollment growth.

In 1979, Blue Cross and Blue Shield plans received a combined total of \$23.5 billion from subscribers, up by 8.9 percent from the \$21.5 billion they received in 1978. In 1978, subscription income increased 10.2 percent over the 1977 total of \$19.6 billion. After allowing for enrollment change, subscription increases barely kept pace with the rise in the CPI for medical care expense.

Blue Cross and Blue Shield plans incurred claims expenses of \$21.7 billion in 1979, or 92.6 percent of their subscription income. In 1978, their benefit payments were \$19.5 billion, or 90.3 percent of subscriptions, and in 1977 their claims ratio was 90.1 percent. The years 1977 through 1979 were underwriting gain years for these plans, though 1979 was barely positive.

The 1979 administrative expense of Blue Cross and Blue Shield plans totaled \$1.7 billion, or 7.3 percent of subscription income. The 1978 administrative expense of Blue Cross and Blue Shield plans totaled \$1.5 billion, or 7.0 percent of subscription income. The 1977 administrative expense ratio was almost the same—6.8 percent. After deducting claims and administrative expenses from subscription income, Blue Cross and Blue Shield plans had a small net underwriting gain (\$32.1 million) in 1979. However, 1977 and 1978 were more positive years with gains of \$6 billion each year, after three years of significant losses.

Comparison of Insurance Company Regular and ASO-MPP Business

Year	1975	1976	1977	1978	1979
Regular Business					
Premiums	\$14,849.0	\$16,752.0	\$19,335.0	\$20,866.5	\$23,035.0
Percent Change	—	12.8	15.4	7.9	10.4
Benefits	13,157.3	15,492.7	17,206.2	19,056.8	20,144.8
Percent Change	—	17.7	11.1	10.8	5.7
ASO-MPP Business					
Premiums	1,311.0	2,752.0	3,939.0	5,317.5	5,923.0
Percent Change	—	109.9	43.1	35.0	11.4
Benefits	1,233.0	2,494.0	3,660.0	4,747.0	5,302.0
Percent Change	—	102.3	46.8	29.7	11.7
Total Business					
Premiums	16,160.0	19,504.0	23,274.0	26,184.0	28,958.0
Percent ASO-MPP	8.1	14.1	16.9	20.3	20.5
Benefits	14,390.3	17,986.7	20,866.2	23,803.8	25,446.8
Percent ASO-MPP	8.6	13.9	17.5	19.9	20.8

Independent Plans

The independent plan subscription income was \$9.4 billion in 1979, up 28.5 percent from the 1978 level of \$7.3 billion. Benefit expense, \$8.3 billion in 1979, grew slightly faster at 27.4 percent than the 1978 growth rate of 25.9 percent. The 1978 benefits totaled \$6.5 billion. The independent plans' benefits ratio was comparable to that of Blue Cross and Blue Shield in 1978 but lower than that of Blue Cross and Blue Shield in 1979. In 1979, independent plans had an operating expense of \$.7 billion. Their net underwriting gain was \$.3 billion, up 36.9 percent from the 1978 level of \$.2 billion. Net income for 1979 was about \$.5 billion, and in 1978 it was \$.3 billion. Independent plans did almost 17 percent of all health insurance business in 1979.

Claims Ratios

The insurance companies and the independent plans showed a decline in their claims ratios in 1979. The insurance companies' drop was particularly strong, going from 91.3 percent in 1978 to 87.5 percent in 1979, while independent plans decreased from 89.6 percent to 88.8 percent for the same two years. Blue Cross and Blue Shield plans moved in the opposite direction, 90.3 to 92.6 percent for the same period. Since health care price indexes are showing strong increases, one would not expect the insurance companies' 1979 benefit experience to continue, but rather that their claims ratios would more closely resemble those of the Blue Cross and Blue Shield plans.

Trends

National health expenditures, as a percent of gross national product, have risen almost fifty percent (47.5) the last fifteen years, from a 1965 level of 6.1 percent to a 1979 level of 9.0 percent. Similarly, insurance premiums, as a percent of disposable personal income, have increased more than half again as much (61.9 percent) from a 1965 percentage of 2.1 to a 1979 percentage of 3.4. The same type of pattern is evident in many of the insurance and health variables (see the following table). Except for the movement of medical care prices in the early 1970s, all items are showing increased rates of growth.

Average Annual Rates of Growth for Selected Items in Five Year Increments

Years	Premiums	Benefits	Medical Care CPI	National Health Expenditures
1965-69	9.93	10.37	6.10	11.96
1970-74	12.94	11.87	5.69	11.62
1975-79	14.56	13.65	9.20	12.58

Another notable financial trend is the independent plans' increasing share of the industry's business (see Figure 5 and the text table entitled, Percentage of Health Insurance Business).

Independent plan premiums have grown at an average annual rate of 21.6 percent from 1965 to 1979, compared with the industry growth rate of 13.1 percent. Self-funded plans, representing approximately 60 percent of the independent plan total, have grown at an average annual rate of 21.8 percent for the 15 year period. The independent plans also include HMO's and prepaid dental and vision service corporation plans, all of which have experienced rapid growth in recent years.

Benefit expenditures for the industry grew from \$8.7 billion in 1965 to \$50.2 billion in 1979, an annual average growth rate of 12.4 percent (Table 7). Figure 6 illustrates the behavior of premiums and benefits from 1965 to 1979. As shown in the table entitled, Premium and Benefit Growth Rates, in the three years prior to 1979 the benefit growth rates were 18.0, 12.8, and 12.6 percent. The growth rate of 11.4 percent in 1979 is slower than that of immediately preceding years and is also slower than the 12.5 percent 1979 growth in overall health expenditures.

Premium and Benefit Growth Rates

Year	Industry Total	Blue Cross Blue Shield	Insurance Companies	Independent Plans
Premiums				
1975	16.8	16.8	12.9	39.1
1976	17.7	19.5	12.8	32.1
1977	16.9	13.2	15.4	38.0
1978	11.4	10.2	7.9	27.0
1979	12.4	8.9	10.4	28.5
Benefits				
1975	22.9	21.9	21.8	34.5
1976	18.0	14.3	17.7	37.8
1977	12.8	8.6	11.1	38.1
1978	12.6	10.4	10.8	25.9
1979	11.4	11.6	5.7	27.4

The reasons for the deceleration, due mainly to low growth in the insurance company data, are not apparent, especially given the 1979 acceleration in the growth in prices (see CPI text table).

Premium growth outpaced claims growth in 1979, reversing the 1978 pattern. Premium growth is a natural consequence of rapidly growing claims, which in turn reflect health care costs and an increase in the range of health care benefits covered by insurance. Though premiums grew faster than benefits in 1979, the industry in general still suffered a net underwriting loss. Thus, it may be expected that premiums, particularly for insurance companies, will show strong growth relative to benefits again in 1980. Price increases, as shown in the table entitled, Annual Percentage Change for Selected Consumer Price Indexes, strengthen this supposition.

Annual Percentage Change for Selected Consumer Price Indexes

Year	1973	1974	1975	1976	1977	1978	1979	1980
All Items	6.2	11.0	9.1	5.7	6.5	7.6	11.3	13.5
Medical Care	3.9	9.3	12.1	9.5	9.5	8.4	9.3	10.9
Medical Care Services	4.4	10.2	12.6	10.0	9.9	8.7	9.7	11.3
Professional Services	3.3	8.6	11.0	9.0	8.2	7.6	8.6	11.1
Physicians' Services	3.3	9.2	12.3	11.3	9.3	8.3	9.2	10.6
Dental Services	3.1	7.7	10.3	6.4	7.5	7.0	8.4	11.8
Other Medical Care Services	5.7	11.9	14.3	11.0	11.7	9.6	10.7	11.4
Hospital Room	4.7	10.7	17.2	13.8	11.5	11.0	11.4	13.1

Source: U.S. Department of Labor, Bureau of Labor Statistics.

TABLE 7
Subscription or Premium Income and Benefit Expenditures of
Private Health Insurance Organizations, for Selected Years, 1950-1979
(in millions)

Year	All Plans	Blue Cross and Blue Shield		Insurance Companies		Independent Plans		
	Total	Blue Cross	Blue Shield	Total	Group Policies	Individual Policies		
Income								
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	1,626.9	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
1965	9,993.3	4,169.0	2,993.7	1,175.3	5,216.0	3,657.0	1,559.0	608.3
1970	17,074.9	7,370.9	5,147.1	2,223.8	8,636.1	6,664.1	1,972.0	1,067.9
1975	32,437.1	14,446.4	10,060.5	4,385.8	14,849.0	11,779.0	3,070.0	3,141.7
1976	38,171.5	17,268.1	12,037.4	5,230.7	16,752.0	13,470.0	3,282.0	4,151.4
1977	44,618.6	19,553.4	13,606.3	5,947.1	19,335.0	15,752.0	3,583.0	5,730.2
1978	49,692.4	21,547.4	'	'	20,866.5	17,082.5	3,784.0	7,278.5
1979	55,859.0	23,471.1	'	'	23,035.0	18,914.0	4,121.0	9,352.9
Benefit Expenditures								
1950	\$ 991.9	\$ 490.6	\$ 382.9	\$ 107.7	\$ 400.0	\$ 257.0	\$ 143.0	\$ 101.3
1955	2,535.7	1,146.7	832.9	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
1965	8,738.2	3,912.9	2,853.4	1,059.5	4,274.3	3,422.3	852.0	551.0
1970	15,618.6	7,060.2	5,009.3	2,050.9	7,531.0	6,385.0	1,146.0	1,027.4
1975	30,072.4	14,192.0	10,075.9	4,116.1	13,157.3	11,588.3	1,569.0	2,723.1
1976	35,470.6	16,226.5	11,624.9	4,601.6	15,492.7	13,761.5	1,731.2	3,751.4
1977	40,013.4	17,626.2	12,473.7	5,152.5	17,206.2	15,283.8	1,922.4	5,181.0
1978	45,044.2	19,465.2	13,490.8	5,974.4	19,056.8	16,393.5	2,663.3	6,522.2
1979	50,175.6	21,723.8	15,395.7	6,328.1	20,144.8	17,451.6	2,693.2	8,307.0

'Data are not available.

FIGURE 5
Percentage of Health Insurance Business

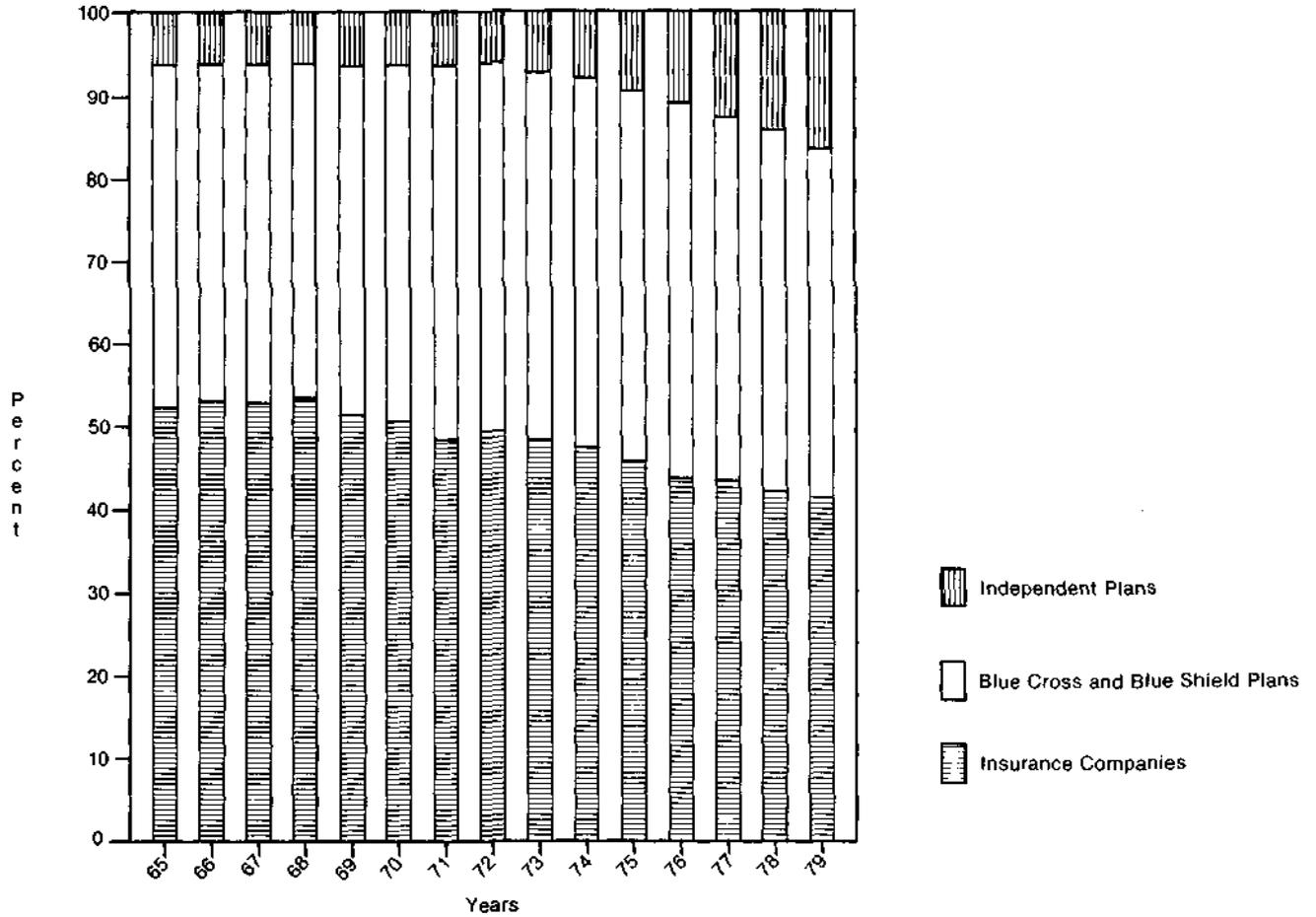
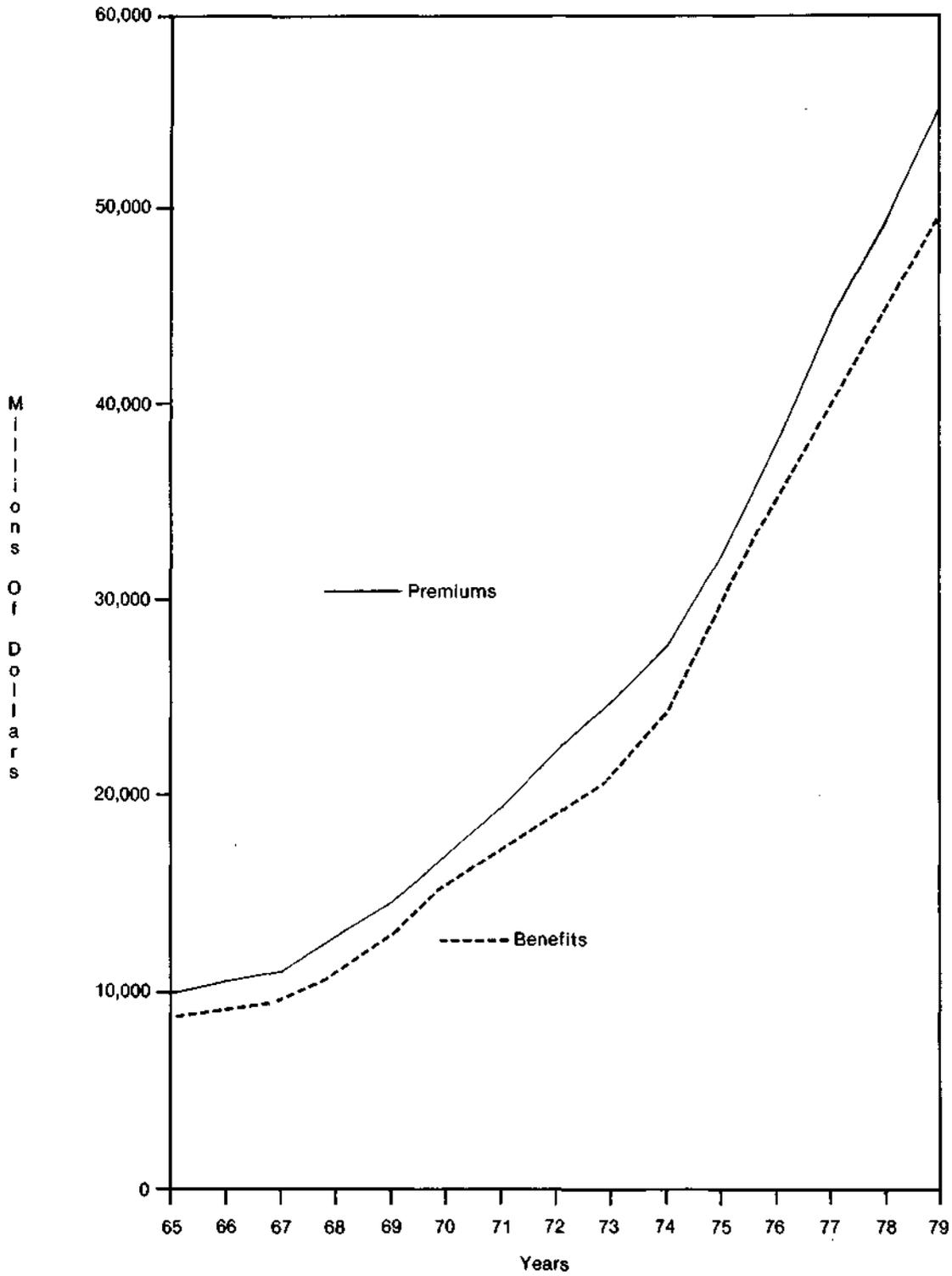


FIGURE 6
Private Health Insurance Premiums and Benefits, 1965-1979



Benefit Expenditures

Blue Cross and Blue Shield plans had the largest amount of hospital care expenditures in 1979, 48.4 percent of the \$30.1 billion total (Table 8). Insurance companies expended nearly as much, accounting for 39.9 percent of the total. Independent plans covered 11.7 percent of the total insurance for hospital care. For physicians' care, the companies' expenditures represented 40.2 percent of the industry total of \$14.7 billion; Blue Cross and Blue Shield plans had 40.0 percent; and independent plans accounted for the remaining 19.8 percent.

In 1979, independent plans had the largest share of the \$1.6 billion expended by the industry for prescribed drugs (out-of-hospital), with 36.1 percent of the total. Blue Cross and Blue Shield plans had a 32.6 percent share of drug expenditures, and insurance companies had 31.3 percent of the total.

Dental care benefits in 1979 were \$2.9 billion. Of this total, insurance companies accounted for 51.2 percent. Independent plans were next with 37.1 percent of the total, and Blue Cross and Blue Shield accounted for the remainder, 11.7 percent. Finally, for all other types of care in 1979, the industry total of \$9 billion was shared at \$.4, \$.3 and \$.2 billion, respectively, for Blue Cross and Blue Shield plans, insurance companies, and independent plans. These plans represented 44.7, 29.0 and 26.1 percent of the total expenditures for all other types of care in 1979.

No new trends have appeared in the percentage distribution of benefit expenditures (Table 9). Almost ninety percent (89.3) of all benefit expenditures in 1979 went for hospital (60.0) and physicians' care (29.3). Another 6 percent (5.8) was paid for dental care, and over three percent (3.1) was paid for prescribed drugs (out-of-hospital). The remaining 2 percent (1.8) went for private duty nursing, visiting nurse services, nursing home care, vision care, and other types of health care.

Although hospital care continued its gradual decline as a share of total expenditures, it still accounted for 60 percent of total benefits in 1979 (see Figures 7-9).

Prescribed drugs (out-of-hospital) and dental care continued to gain in their shares of the expenditure distribution, while physicians' care remained fairly constant. Non-hospital, non-physician care has grown from 5.4 percent in 1970 to 10.7 percent in 1979, reflecting the increased coverage for these types of care.

Operating Expense Ratios

Operating expense rose at a 14.9 percent rate in 1979, but as a percent of premium income it remained, as it has been since 1975, in the 12 to 13 percent range. (See the table entitled, Operating Expense as a Percentage of Premium Income.) The lower percentages in recent years may reflect success on the part of large employers in reducing administrative expenses.

As in years past, wide variation occurred in the operating expense ratio for the various types of insurers. Such features as the complexity of claims processed, acquisition costs, and other expenses of doing business—commissions, taxes, licenses and fees—caused these differences. Blue Cross plans have historically had the lowest operating expense ratio, just above 5 percent for all of the 1970's, largely because hospital claims are not as complex as other kinds of claims, and hospital claims comprise most of the Blue Cross business. Blue Shield, which handles surgical-medical claims, has consistently had an expense ratio about twice as large as that of Blue Cross.

The operating expense ratio of insurance company group business continued to be slightly higher than Blue Shield's, the difference stemming from the taxes the companies pay. The operating expense ratio of insurance company individual policy business was the highest for the industry at 44.5 percent. The reason for this high operating expense ratio is that individual policies are expensive to sell and administer. The operating expenses of independent plans have always been relatively low—7.8 percent of subscription income in 1979—primarily because they tend to deal with group situations which are less costly to administer.

Operating Expense as a Percentage of Premium Income

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
14.0	14.0	14.2	14.0	14.0	12.9	12.5	12.2	12.5	12.7

TABLE 8
Benefit Expenditures of Private Health Insurance Organizations, by Specified Type of Care, 1977-1979
(in millions)

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
1979										
Total	\$50,175.6	\$30,130.1	\$14,676.9	\$2,900.3	\$1,555.9	\$231.8	\$32.3	\$133.4	\$187.1	\$327.8
Blue Cross and Blue Shield	21,723.8	14,588.3	5,879.8	338.7	506.9	30.3	20.7	44.3	26.9	287.9
Blue Cross	15,395.6	14,320.8	424.6	128.8	262.2	25.6	18.2	42.8	4.4	168.2
Blue Shield	6,328.2	267.5	5,455.2	209.9	244.7	4.7	2.5	1.5	22.5	119.7
Insurance Companies	20,144.8	12,012.4	5,895.6	1,485.7	486.7	185.3	'	60.9	'	18.2
Group Policies	17,451.6	10,126.3	5,151.5	1,485.7	481.2	164.2	'	27.4	'	15.3
Individual Policies	2,693.2	1,886.1	744.1	—	5.5	21.1	'	33.5	'	2.9
Independent Plans	8,307.0	3,529.4	2,901.5	1,075.9	562.3	16.2	11.6	28.2	160.2	21.7
1978										
Total	\$45,044.2	\$27,131.5	\$13,481.9	\$2,306.5	\$1,298.7	\$216.1	\$31.8	\$108.5	\$165.0	\$304.2
Blue Cross and Blue Shield	19,465.2	12,937.0	5,507.2	240.3	404.1	23.6	22.4	32.2	29.3	269.1
Blue Cross	13,490.9	12,622.4	343.4	111.1	222.4	20.3	21.0	29.7	14.0	106.7
Blue Shield	5,974.3	314.6	5,163.9	129.2	181.7	3.3	1.4	2.5	15.3	162.4
Insurance Companies	19,056.8	11,439.2	5,644.5	1,258.3	461.3	179.4	'	56.9	'	17.2
Group Policies	16,393.5	9,526.9	4,950.2	1,258.3	456.3	160.5	'	26.8	'	14.5
Individual Policies	2,663.3	1,912.3	694.3	—	5.0	18.9	'	30.1	'	2.7
Independent Plans	6,522.2	2,755.3	2,330.2	807.9	433.3	13.1	9.4	19.4	135.7	17.9
1977										
Total	\$40,013.4	\$23,863.7	\$12,436.7	\$1,887.0	\$1,117.9	\$213.0	\$23.4	\$ 96.8	\$124.0	\$250.8
Blue Cross and Blue Shield	17,626.2	11,505.2	5,222.9	237.4	354.0	25.6	15.7	33.9	11.5	220.0
Blue Cross	12,473.7	11,280.2	684.0	96.7	210.2	21.7	14.1	31.0	4.0	131.8
Blue Shield	5,152.5	2,141.7	4,538.9	140.7	143.8	3.9	1.6	2.9	7.5	88.2
Insurance Companies	17,206.2	10,216.8	5,263.5	1,046.9	436.6	176.7	'	49.8	'	15.9
Group Policies	15,263.8	8,876.8	4,724.2	1,046.9	432.6	162.4	'	27.1	'	13.8
Individual Policies	1,922.4	1,340.0	539.3	—	4.0	14.3	'	22.7	'	2.1
Independent Plans	5,181.0	2,141.7	1,950.3	602.7	327.3	10.7	7.7	13.1	112.5	14.9

'Data are included in "other types of care."

TABLE 9
Amount and Percentage Distribution of Benefit Expenditures of
All Private Health Insurance Organizations, by Specified Type of Care, 1950-1979

Year	Total	Hospital Care	Physicians' Services	Prescribed Drugs (Out-of-Hospital)	Dental Care	Other Types of Care
Amount (in millions)						
1950	\$ 992.0	\$ 680.0	\$ 312.0	'	'	'
1955	2,536.0	1,679.0	857.0	'	'	'
1960	4,996.0	3,304.0	1,593.0	'	'	\$ 99.0
1965	8,738.2	5,795.5	2,683.0	'	\$ 12.1	247.6
1966	9,115.3	5,976.7	2,822.2	'	18.7	297.7
1967	9,628.5	6,158.6	2,978.5	'	72.0	419.4
1968	11,007.8	7,119.3	3,373.8	'	103.9	410.8
1969	12,964.1	8,292.9	3,993.0	'	154.7	523.5
1970	15,618.6	9,928.6	4,863.4	\$ 306.0	245.8	274.8
1971	17,322.7	11,051.1	5,297.4	378.3	285.4	310.3
1972	19,086.4	11,994.4	5,965.1	423.3	328.7	374.9
1973	21,091.0	13,048.5	6,653.3	507.9	436.1	433.2
1974	24,465.7	14,917.7	7,856.9	618.5	565.5	507.1
1975	30,072.4	18,440.8	9,363.8	743.4	1,006.3	518.1
1976	35,470.6	21,559.5	10,779.9	951.8	1,584.3	597.1
1977	40,013.4	23,863.8	12,436.7	1,117.9	1,887.0	708.0
1978	45,044.2	27,131.5	13,481.9	1,298.7	2,306.5	825.6
1979	50,175.6	30,130.1	14,676.9	1,555.9	2,900.3	912.4
Percentage Distribution						
1950	100.0	68.5	31.5	'	'	'
1955	100.0	66.2	33.8	'	'	'
1960	100.0	66.1	31.9	'	'	2.0
1965	100.0	66.3	30.7	'	.1	2.8
1966	100.0	65.6	31.0	'	.2	3.3
1967	100.0	64.0	30.9	'	.7	4.4
1968	100.0	64.7	30.6	'	.9	3.7
1969	100.0	64.0	30.8	'	1.2	4.0
1970	100.0	63.6	31.1	2.0	1.6	1.8
1971	100.0	63.8	30.6	2.2	1.6	1.8
1972	100.0	62.8	31.3	2.2	1.7	2.0
1973	100.0	61.9	31.5	2.4	2.1	2.1
1974	100.0	61.0	32.1	2.5	2.3	2.1
1975	100.0	61.3	31.1	2.5	3.3	1.7
1976	100.0	60.8	30.4	2.7	4.5	1.7
1977	100.0	59.6	31.1	2.8	4.7	1.8
1978	100.0	60.2	29.9	2.9	5.1	1.8
1979	100.0	60.0	29.3	3.1	5.8	1.8

¹Data are not available.

²Included in "physicians' services."

FIGURE 7
1970 Benefit Distribution

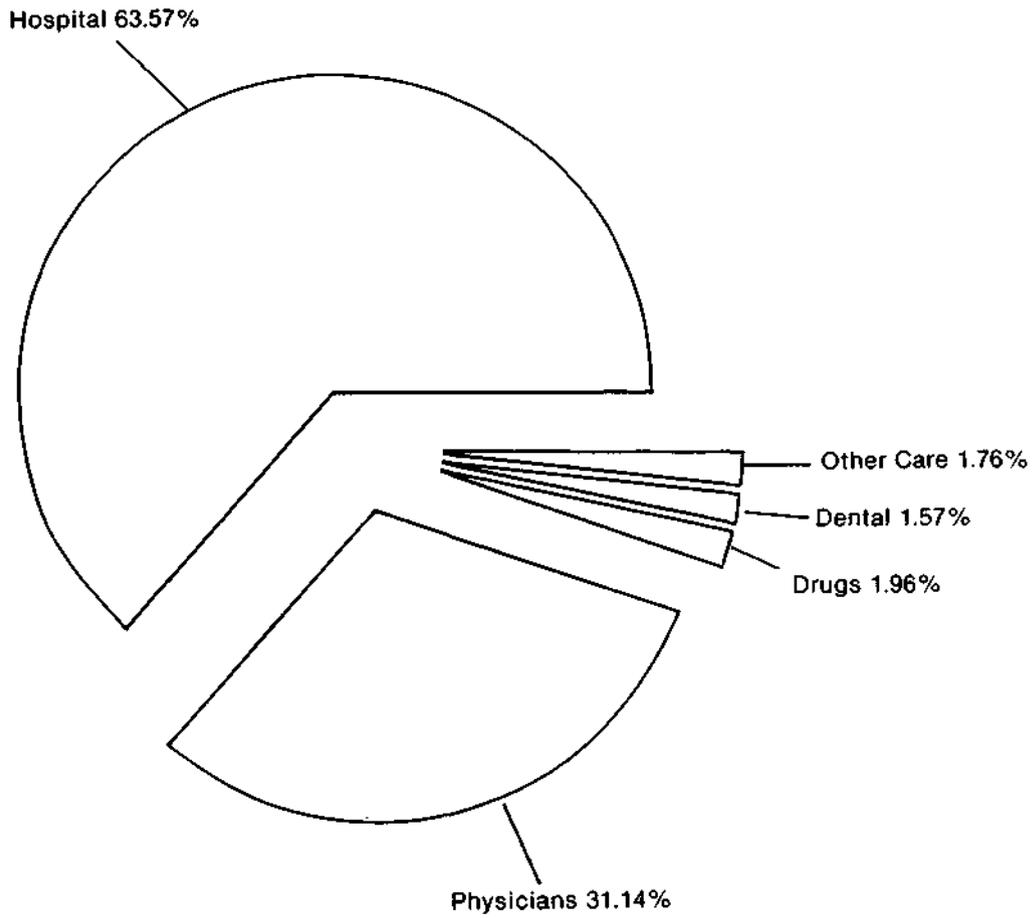


FIGURE 8
1975 Benefit Distribution

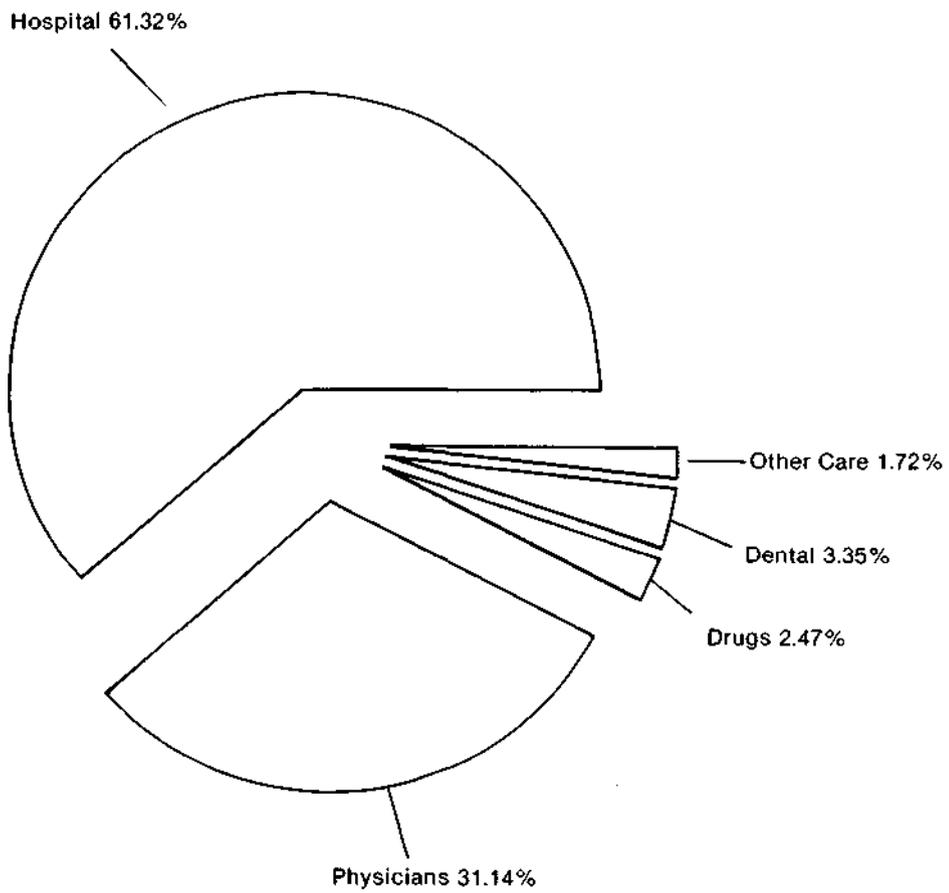
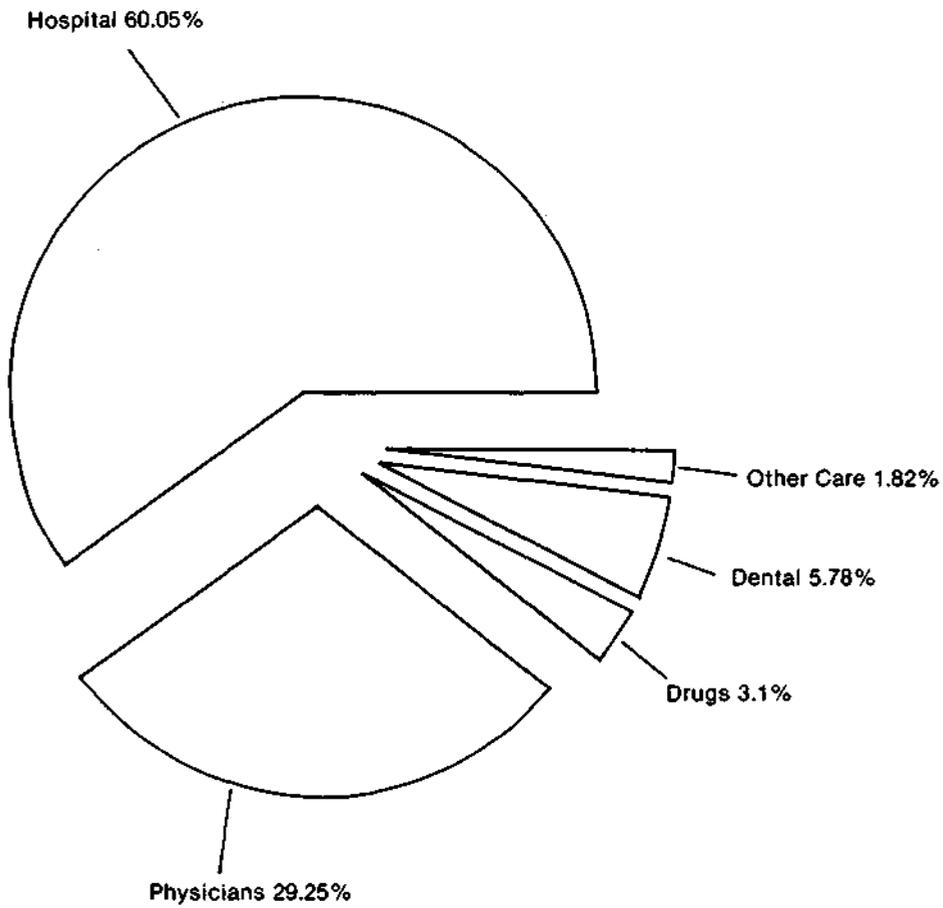


FIGURE 9
1979 Benefit Distribution



The Consumer

During the period 1950-1979, private consumer expenditures for health insurance have increased from \$8.57 to \$254.34 *per capita* for the entire civilian population (Table 10). Average premium expenditures per person covered by any type of private health insurance (using hospital enrollment) has increased from \$16.85 to \$327.06. The percent of national disposable personal income spent for health insurance has increased from .6 percent to 3.4 percent.

TABLE 10
Per Capita Premium Expenditures for Private Health Insurance, Average Premium Expenditures per Person Covered, and Percent of National Disposable Personal Income Spent for Health Insurance, 1950-1979

Year	Per Capita Premium Expenditure	Average Premium Expenditure per Person Covered	Percent of National Disposable Personal Income Spent for Health Insurance
1950	\$ 8.57	\$ 16.85	.6
1955	19.33	29.25	1.1
1960	32.79	44.26	1.7
1965	51.80	72.29	2.1
1970	84.09	110.69	2.5
1975	152.73	198.01	3.0
1976	178.49	232.42	3.2
1977	206.93	264.98	3.4
1978	228.56	293.91	3.4
1979	254.34	327.06	3.4

The percent increase in *per capita* premium expense from 1950 to 1979 was almost 2900 percent. Premium rates are a direct response to benefit increases which result mainly from rising prices for hospital care, physicians' services and other health care services, and increases in the volume of services. Volume of services is measured by expansion of insurance coverage to a wider range of services, increased utilization rates, and population growth.

The average premium expended per person covered by private insurance (using the net number of persons covered by hospital insurance, since that is the type of coverage most commonly held) rose about 1800 percent. The percent of national disposable personal income in current dollars spent for health insurance rose about 500 percent.

Private health insurance cost consumers \$5.7 billion above the amounts they received back from insurers for claims or benefits in 1979. The net cost was \$4.6 billion in 1978. These amounts were retained by insurers to cover operating expenses, profits, and additions to reserves. For consumers, the amount of net cost represents the net expense of obtaining insurance, that is, the amount consumers pay for risk assumption and administrative services by the insurer.

As the following table shows, the 1979 net costs were more than double the 1976 level, and almost 4 times the 1970 level. The following series also indicates that net cost fluctuates over time, usually reflecting the general business conditions in the health insurance industry, and in turn affecting the yearly increases in reserves and net gain of the insurers.

Consumer Net Cost for Selected Years

Year	Total	Blue Cross and Blue Shield	Insurance Companies	Independent Plans
1950	\$ 299.6	\$ 83.4	\$ 205.0	\$ 11.2
1955	613.9	145.7	447.9	20.3
1960	844.7	194.9	638.0	11.7
1965	1,255.1	256.1	941.7	57.3
1970	1,456.3	310.7	1,105.1	40.5
1971	2,152.0	611.5	1,466.0	74.5
1972	3,271.8	932.4	2,236.7	102.7
1973	3,754.4	1,054.9	2,463.7	235.8
1974	3,311.1	727.5	2,348.7	234.9
1975	2,364.7	254.4	1,691.7	418.6
1976	2,700.9	1,041.6	1,259.3	400.0
1977	4,605.2	1,927.2	2,128.8	549.2
1978	4,648.2	2,082.2	1,809.7	756.3
1979	5,683.4	1,747.3	2,890.2	1,045.9

Over the years the public has been able to buy private health insurance on increasingly advantageous terms, as shown by a sometimes sporadic but nevertheless steady decline in the retention ratio (retentions as a percentage of premium income) (Table 11). In 1950, the industry retained 23.2 percent of premium income for operating expense, additions to reserves, and profits. In 1979, the rate was less than half—10.2 percent. The decrease is the result of two major factors: (1) a sharp drop in the retention rates of group insurance, and a substantial drop in the retention rates of Blue Cross and Blue Shield plans, and (2) the steady decline of the share of individual business, with its very high retention rates, both of total insurance company business and of the industry as a whole.

Portion of Consumer Expenditures Met by Insurance

Private health insurance paid for 44.7 percent of the \$112.2 billion spent by consumers in 1979 for personal health care, a drop from the 45.4 percent covered in 1978. The remaining 55.3 percent was direct out-of-pocket expense for noncovered and partially covered personal health care services. If administration or prepayment is considered as part of personal health care expenditures, in 1979 insurance covered 42.6 percent of the \$117.9 billion total. This value is also down from 1978 when insurance met 43.4 percent of the total.

As the following table shows, the drop in the percent of consumer health care expense paid for by private health insurance was notable in hospital care, in which the percent went from 80.4 to 79.1, the lowest percent since 1974. Physicians' services showed an even greater drop in the percent of cost met by private health insurance, 50.7 to 48.9 percent. The implication in both instances is that the insurance benefit structure is not keeping pace with hospital and physician expenditures. Indemnity schedules may not have been adjusted up enough to cover rising expenditure levels. Also, in an effort to hold down costs, insurers may have adjusted deductibles and co-

insurance. In any event, the drop in overall costs met by insurance in 1979 is explained by these two types of care, which comprise 89.3 percent of all benefit expenditures.

The portion of consumer expenditures for dental care met by insurance has risen to 22.3 percent, a trend of steady growth since 1965 when virtually no dental costs (1.5 percent) were paid by insurance. While the insurance share of payments for drugs and all other types of care has also grown over time, consumer out-of-pocket expenditures are still 91.1 and 94.1 percent, respectively, for these two types of care.

Percentage of Expenditures Paid by Insurance

Year	Total	Hospital Care	Physicians' Services	Prescribed Drugs (Out-of-Hospital)	Dental Care	Other Types of Care
1950	12.2	37.1	12.0	1	1	1
1960	27.8	64.7	30.0	1	1	5.0
1965	32.1	70.9	34.0	2.6	1.5	3.1
1966	31.9	70.9	33.9	2.9	1.8	3.5
1967	33.7	77.2	36.8	3.6	2.3	5.0
1968	34.7	77.2	39.3	3.0	2.4	4.3
1969	35.9	77.5	40.5	3.3	3.0	5.2
1970	37.5	78.2	42.9	4.1	5.4	4.9
1971	38.4	79.6	42.6	4.7	5.9	5.2
1972	38.1	75.8	45.0	4.9	6.2	5.3
1973	38.1	73.8	45.5	5.5	7.0	5.8
1974	40.2	76.2	49.4	6.1	8.1	6.1
1975	43.6	81.3	50.9	6.8	13.0	5.6
1976	45.2	81.3	52.7	8.0	17.7	5.6
1977	45.1	79.2	52.3	8.7	18.8	6.0
1978	45.4	80.4	50.7	9.2	20.4	6.1
1979	44.7	79.1	48.9	9.9	22.3	5.9

Source: National Health Accounts, Division of National Cost Estimates, Office of Financial and Actuarial Analysis, HCFA
 1Data are not available.

TABLE 11
Retentions of Private Health Insurance Organizations as a Percentage of Subscription or Premium Income, 1950-1979

Year	Total	Blue Cross and Blue Shield Plans	Insurance Company Policies			Independent Plans
			Total	Group	Individual	
1950	23.2	14.5	33.9	22.8	47.4	10.0
1955	19.5	11.3	27.5	16.1	46.9	8.8
1960	14.5	7.9	21.1	9.6	47.1	3.5
1965	12.6	6.1	18.1	6.4	45.3	9.4
1970	8.5	4.2	12.8	4.2	41.9	3.8
1971	11.1	7.0	15.6	5.3	46.2	5.9
1972	14.6	9.4	20.2	10.5	49.9	7.4
1973	15.1	9.5	20.6	11.5	48.0	12.8
1974	11.9	5.9	17.9	6.1	53.2	10.4
1975	7.3	1.8	11.4	1.6	48.9	13.3
1976	7.1	6.0	7.5	-2.2	47.3	9.6
1977	10.3	9.9	11.0	3.0	46.3	9.6
1978	9.4	9.7	8.7	4.0	29.6	10.4
1979	10.2	7.4	12.5	7.7	34.6	11.2

Technical Note

Sources of Gross Enrollment Data

Gross enrollment figures are total enrollments reported by the various insurers, by type of care. No deductions are made for duplication among insurers or for duplication of policies (both group and individual) of insurance companies. Enrollees in plans served by insurance companies under ASO-MPP agreements are not included in gross enrollment figures for insurance company group business or in total insurance company business.

Blue Cross and Blue Shield data were supplied by the Blue Cross and Blue Shield Associations from data reported to them by their various plans in the United States. Gross enrollments for hospital and surgical care, for physicians' in-hospital visits, and for home and office visits were provided separately by Blue Cross and Blue Shield plans for two age groups: (1) Regular membership (under age 65), and (2) coverage complementary to Medicare (for those age 65 and over, and disabled members under age 65 eligible for Medicare). For all other types of care, the Blue Cross and Blue Shield Associations reported enrollments jointly. Major-medical coverage was also reported jointly, but information was available only for the combined age groups. The Office of Research, Demonstrations, and Statistics (ORDS) of the Health Care Financing Administration (HCFA) adjusted the Blue Cross data to exclude enrollments for underwritten welfare programs.

The Health Insurance Association of America (HIAA) compiled the data for insurance companies from its annual survey of the number of persons in the United States covered under group and individual insurance policies. Gross enrollments for hospital, surgical, regular medical, and major-medical (supplementary and comprehensive) policies were reported for persons under age 65 and for those age 65 and over.

Since 1974, the HIAA has used the gross enrollments under major-medical plans for both age groups to represent gross enrollments for prescribed drugs and nursing services. Major-medical coverage is also the primary determinant of enrollment of persons under age 65 and age 65 and over for the following services: physicians' in-hospital visits, home and office visits, and x-ray and laboratory examinations. The HIAA reported dental enrollment for the combined age groups.

For the independent health insurance plans, the 1978 and 1979 data were based on estimates from the ORDS annual surveys of such plans. The 1978 Nationwide Survey of Independent Prepaid and Self-insured Health Plans served as the sampling frame. A stratified, random sample of 215 plans was drawn based on enrollment size. When the 1978 survey is complete, it

will serve as a benchmark (point of reference) for the years between 1972 and 1977.

ORDS Estimates of Net Coverage

Net figures are the net numbers of different persons enrolled for given types of care. Duplicate coverage was eliminated for persons protected by more than one insurance company policy and by more than one type of insurer. We based net enrollments for hospital and surgical care in 1976 and 1978, for persons under age 65, on biennial household interview surveys (HIS) conducted by the National Center for Health Statistics (NCHS). Net enrollments for hospital care for persons age 65 and over were also based on the NCHS surveys. The 1976 and 1978 nets for surgical care for persons age 65 and older were derived by removing the duplication from gross enrollment data reported by the industry.

We derived net figures for other types of care from industry reports by removing duplication from gross enrollment data reported and by looking at trends in gross enrollments. Net figures for 1978 and 1979 were derived by projection on the basis of movement in gross enrollments, since a strong correlation exists between gross and net enrollments.

Sources of Financial Data

The data for Blue Cross and Blue Shield plans shown in Table 6 are based on financial statements supplied by the Blue Cross and Blue Shield Associations for all plans. The duplication caused by 24 joint Blue Cross and Blue Shield plans reporting identical data to both national organizations has been eliminated. Data for Health Services, Inc., and for Medical Indemnity of America, Inc. (insurance companies owned by the Blue Cross and Blue Shield Associations, respectively) have been included. Data for Puerto Rico and other outlying areas have been excluded.

HIAA provided data on premium income and benefit expense of insurance companies based on their annual surveys and linked to figures published by the National Underwriter Company. HIAA adjusted the data to eliminate premiums and estimated losses for accidental death and dismemberment insurance and to include any companies that did not appear in the National Underwriter figures.

Premium income and claims reported by HIAA for the years 1975-1979 were reported separately for regular business and business under administrative service agreements (ASO) and minimum premium plans (MPP). The data in the financial tables in this article represent regular business only.

HCFA revised the 1977 group policies claims data to bring the data in line with other industry source data. The 1977 group policy benefits by each type of care were extrapolated from 1976 levels, using a combination of enrollment and price changes as extrapolators. These benefit estimates were summed and provide the 1977 claims estimate.

We estimated operating expenses by applying the ratio of operating expense to premium income derived

from the National Underwriter aggregates to the figures for premium income provided by HIAA.¹

The 1978 and 1979 data for independent plans are ORDS estimates based on preliminary information from its 1979 and 1980 surveys.

¹National Underwriter Company, 1979 Argus Chart of Health Insurance, 1979, page 3; 1980 Argus Chart of Health Insurance, 1980, page 3; and earlier annual editions.