

subject with which we were appointed to deal, expert actuarial advice would be essential. We, therefore, approached the Minister of Health, recommending that he should set up a Departmental Actuarial Committee to assist us in dealing with such actuarial questions as would necessarily arise in the course of our investigation. This recommendation was accepted by the Minister, who, on the 19th November, 1924, appointed a Committee under the chairmanship of Sir Alfred Watson, the Government Actuary and a member of the Commission, with the following terms of reference:—

“To advise the Royal Commission on National Health Insurance actuarially as to whether the present basic contribution under the National Health Insurance Acts is in fact required for the existing benefits (including the cost of Societies' and Insurance Committees' administration), or whether such a rearrangement of the financial basis of the Scheme would be justified as would reduce the amount allocated to the present benefits and leave a margin for other purposes; and thereafter to continue in being to furnish such further actuarial advice as may be required by the Royal Commission on any matters arising in the course of their inquiry.”

In addition to the Chairman the Committee was composed of Mr. A. D. Besant, President of the Institute of Actuaries, who is also a member of the Commission, Mr. A. Henry, the Deputy Government Actuary, and Messrs. R. G. Maudling and L. E. Clinton, Fellows of the Institute of Actuaries. The Committee presented to us three reports dated 13th October, 1925, 7th December, 1925, and 18th December, 1925, and these appear as Appendix A to our Report. We desire to acknowledge our indebtedness to the Committee for the valuable assistance which we have derived from their labours.

## CHAPTER II.

### THE SCHEME OF NATIONAL HEALTH INSURANCE.

#### HISTORY OF THE SCHEME.

7. The Scheme of National Health Insurance in this country had its origin in the National Insurance Act of 1911, which was described in its Preamble as “an Act to provide for insurance against loss of health and the prevention and cure of sickness and for purposes incidental thereto.” The Scheme came into operation on the 15th July, 1912, and had therefore been in operation for a period of 12 years at the time when we were appointed to make the first general and comprehensive investigation into its working.

8. During these 12 years the Scheme of Health Insurance has not been without its history—a history which is reflected in a fairly continuous series of amending Acts of varying degrees of importance stretching from 1913 to the Consolidating Act of 1924. These various legislative alterations may, broadly, be ascribed to two main causes. In the first place, the original Act, viewed merely as a piece of legislation, was planned on a generous scale, and was drafted on the assumption that special provision should be made for any class of the population which appeared to call for special treatment. For example, aliens and those workers whose conditions of employment guaranteed them payment of wages during a certain period of incapacity, were the subject of special legislative provision. Moreover, other sections of the Act aimed at dispensing justice as between individuals in matters where abstract justice could only be achieved by machinery which in the circumstances could not fail to be burdensome in administration. As examples of such it may be permissible to cite the original provision made for the calculation and the imposition of penalties for arrears, the provision with regard to late entrants to insurance, and the arrangements for transfer between compulsory and voluntary insurance. In the light of subsequent events the original Act might be criticised for its implicit underlying assumption that the individuals composing the population are “classifiable” in a sense in which, in fact, they are not. Consequently, no doubt, certain sections of the Act, irreproachable in themselves and based on the assumption that the population as a whole was stabilised, were found to be out of touch with the realities of the situation. In short, the original Act was in many respects complex with a complexity which in practice yielded no adequate compensating advantage, and the realisation of this fact led to one series of amendments, those aiming at simplification of enactment and of administration.

9. The second main cause leading to amendment of the Act is to be found in the War and its economic consequences. It is a striking tribute to the general soundness of the lines on which the original Act was constructed that its administration was able to bear the severe strain imposed by war conditions at so early a date in its history. In relation to National Health Insurance the War did not merely occasion great difficulties in carrying on a scheme largely dependent on voluntary work and still in its early stages, but it raised problems calling for legislation to secure a measure of adaptation to the new conditions brought about, among many changes, by the absorption of so large a proportion of the population in the Forces, the grant of war pensions to disabled men and the general rise in the level of wages.

#### THE AMENDING ACTS.

10. Without entering into any detail, it may be convenient to refer briefly to some of the more important amending Acts passed during the period under review. The earliest Act was that of 1913, the immediate object of which was to make provision by Exchequer grant for the additional cost of medical benefit. At the same time, the opportunity was taken to give effect to a certain number of minor amendments the need for which had been disclosed in the early period of the operation of the Act. In 1915 and 1917 two Acts were passed in order to effect an adjustment in the rate of benefit payable to discharged soldiers in receipt of total disability pensions. Much more important was the Act of 1918, which followed the Report of the Departmental Committee on Approved Society Finance and Administration. The object of this Act was primarily to give effect to certain financial adjustments in the Scheme designed to strengthen the position of the weaker Societies; but it also introduced a large measure of simplification in regard to a considerable number of administrative details. Of later measures two, passed in 1919 and 1920, were occasioned by changing economic conditions, the first raising the limit for insurance of non-manual workers from a rate of remuneration of £160 to £250 a year, and the second increasing the rates of contributions and of benefits. Apart from these, it is only necessary to refer generally to the Acts dealing with the cost of medical benefit and to mention as of special interest the Act which made provision for prolongation of insurance in certain cases in order to meet the hardship occasioned by the general prevalence of unemployment. It was inevitable that this considerable volume of uncoordinated legislation should add not a little to the difficulties of administration and it was of material advantage to all concerned when in 1924 the whole of the existing legislation relating to National Health Insurance (with the exception of certain temporary provisions) was consolidated

in the National Health Insurance Act, 1924, which came into operation on the 1st January, 1925.

#### PREVIOUS INQUIRIES INTO THE SCHEME.

11. We have spoken of the present inquiry as being the first general and comprehensive investigation into the working of the Scheme. There have, inevitably in a scheme of this magnitude, been several inquiries into certain aspects of its operation. Of these, two call for mention by reason of their wider scope and their more general interest. The first was the Committee which sat under the Chairmanship of Sir Claud Schuster in 1913-14 to inquire into allegations that excessive sickness claims were being made on the funds of Approved Societies. The report of this Committee presents an interesting account of the working of Societies at the outset of the Scheme and of the difficulties of administration which confronted them. Issued at the beginning of the War, and in consequence overshadowed by greater events, the report had less practical effect than might have ensued had it appeared in happier circumstances. The other inquiry of considerable importance was that which in 1916 reported on questions of Approved Society finance and administration. This Committee, of which Sir Gerald Ryan was Chairman, devoted a large measure of its attention to questions of simplification, an end desirable in itself yet appearing particularly desirable under the stress of war. The labours of this Committee were reflected, as has been noted, in the very considerable amending Act of 1918.

#### OUTLINE OF THE SCHEME.

12. A full description of the present legislative provisions governing National Health Insurance, as contained in the Acts and the Statutory Regulations and Orders made thereunder, together with an account of the method of administration of the Scheme in England, was supplied to us by the Ministry of Health and is contained in Part I of the Appendix to our Minutes of Evidence. The same volume also contains statements supplied by the Scottish Board of Health and the Welsh Board of Health respectively, showing the variations in those countries from the position as set out in the English statement. As these complete statements with regard to the law and the method of administration of the Scheme are included in the official record of our proceedings, we do not think it necessary here to give more than the broadest descriptive outline of the system.

13. The Scheme of National Health Insurance in this country is on a compulsory and contributory basis. The persons who are required to be insured are, subject to certain exceptions, all those between the ages of 16 and 70 who are employed under

a contract of service in manual labour, or in non-manual employment at a rate of remuneration not exceeding £250 a year. The total number of persons insured exceeds 15,000,000. Certain employments, although falling within the general definition given above, are excepted from compulsory insurance, the chief of these being employment under the Crown or a Local Authority where the conditions of employment include provision against sickness not less favourable than that secured under the Act. Provision is also made under which employed persons who are in receipt of a pension or private income of £26 a year or upwards, or who are ordinarily and mainly dependent on some other person, or some non-insurable occupation, may secure exemption, in which case they themselves, but not their employers, are exempted from the liability to pay contributions. The total number of exempt persons has never been considerable, and is at the present time only about 36,000. In addition to the persons (known as employed contributors) who are required to be insured, the Scheme provides for the inclusion as voluntary contributors of persons who, after having been employed and insured for at least two years, elect, on ceasing to be insurably employed, to continue in insurance, paying the whole weekly contribution themselves. The number of voluntary contributors is at present only about 32,000. It may be observed that the present provisions relating to voluntary contributors represent a great restriction on the arrangements contemplated in the original Act. At the outset the Scheme provided for the inclusion as voluntary contributors of those persons who, by reason of the fact that they worked on their own account, did not come under the compulsory provisions of the Act. The response made, however, showed that there was practically no demand for insurance on a voluntary basis, and accordingly in 1918 future admission to the class of voluntary contributors was restricted to those who had for a definite period been insured as employed contributors.

14. The cost of the Scheme is shared between the insured persons, their employers and the National Exchequer. The revenue is derived, in the first instance, from weekly contributions paid partly by the workers and partly by their employers by means of health insurance stamps affixed to contribution cards, the rates of contribution in 1925 being 10d. a week in the case of men, of which 5d. was payable by the employer and 5d. by the worker; and 9d. in the case of women, of which 5d. was payable by the employer and 4d. by the worker. As from the 4th January, 1926, these rates have been reduced to 9d. a week in the case of men (employer 4½d., worker 4½d.) and 8½d. a week in the case of women (employer 4½d., worker 4d.) consequent upon the modifications in the benefits of the Scheme which follow from the provision of pensions at 65 under the recent Widows', Orphans', and Old Age Contributory Pensions Act. The contri-

bution from the National Exchequer towards the cost of the Scheme, apart from the cost of the Central Departments, takes the form of the payment of two-ninths of the total cost of the benefits and of their administration, payable on disbursement, that is to say, a payment by a Society attracts the State contribution of two-ninths.

The total income received from contributions in the year 1924 amounted to £27,377,000, and a sum of about £5,000,000 was derived from interest on accumulated funds. The expenditure on benefits was £26,118,000, and the cost of administration of these benefits by Approved Societies and Insurance Committees was £3,804,000. The total expenditure from the Exchequer towards the cost of the Scheme, inclusive of the cost of the central Government Departments concerned in the administration, was £7,045,000.

15. The benefits provided under the Scheme are:—

(1) Medical benefit, i.e., medical treatment and attendance, including the provision of proper and sufficient medicines and of the prescribed medical and surgical appliances.

(2) Sickness benefit, i.e., periodical payments during incapacity for work through illness. The ordinary rates of sickness benefit are 15s. a week for men, and 12s. a week for women, commencing on the fourth day of incapacity and continuing for a maximum period of 26 weeks.

(3) Disablement benefit, i.e., a continuance of periodical payments during illness at the reduced rate of 7s. 6d. a week for both men and women after the title to sickness benefit has been exhausted.

(4) Maternity benefit, i.e., payment of the sum of £2 on the confinement of an insured woman or the wife of an insured man. (A total sum of £4 is payable in the case of a married woman who is or has recently been herself an employed contributor; these cases represent 25 per cent. of the whole number of payments to married women.)

(5) Additional benefits, which may be provided by an Approved Society having a disposable surplus on valuation, and may take the form either of an increase of the normal cash benefits, or payment towards the cost of various forms of treatment, such as dental, ophthalmic, hospital or convalescent home treatment.

16. The Act makes provision for variation from the normal contributions or benefits in the case of certain special classes of insured persons, such as women who cease employment on marriage, men serving in the armed forces of the Crown, seamen of the Mercantile Marine, and others. There are also special

provisions on a non-insurance basis for that class of persons known as deposit contributors, who cannot, or do not attempt to, obtain admission to an Approved Society. The existence of this class, which in 1911 was not intended to be given permanent existence, raises a number of difficult problems, which are discussed in Chapter XII of our Report.

17. A general supervision over the administration of the Scheme on behalf of the Central Government is undertaken in England and Wales by the Ministry of Health and in Scotland by the Scottish Board of Health. These Departments have an outside staff of inspectors distributed over the country, whose primary duty is to secure compliance with the provisions of the Act relating to the payment of contributions. The prompt payment of the contribution in respect of the 15 million insured persons week by week is a feature of the Scheme essential on financial grounds and remarkable as a piece of administrative machinery. The administration of medical benefit and of certain minor matters relating to deposit contributors and other classes is entrusted to specially appointed bodies, created under the Act of 1911, known as Insurance Committees. Such a Committee exists in each county and county borough in England and Wales and in each of the counties and larger burghs in Scotland. There are in England and Wales 145 such Committees, and in Scotland, 54. The cash benefits and additional benefits are administered by Approved Societies, which are self-governing bodies of insured persons who elect to group themselves together for the purposes of the Act. There are at the present time about 1,000 Approved Societies engaged in the administration of the Act, including 31 Societies with Branches. The Branches, which number about 7,000, are independent financial units for the purpose of National Health Insurance; they possess also a considerable measure of administrative independence, but are integral parts of the parent organisations to which respectively they belong and are subject to the general authority thereof. Approved Societies are not as a rule organised on any territorial basis, though in the nature of the case the membership of many of them is preponderantly localised. They vary in membership from less than 50 to more than 2,000,000 insured persons. Some are restricted to persons engaged in particular occupations or belonging to particular religious denominations or having some other common bond of interest; while others are open to all insured persons without qualification. For certain purposes Approved Societies may also be conveniently viewed in relation to other work carried on by them or their promoters, and from this point of view they may be classified into Societies formed in the Friendly Society movement, those instituted by the great Industrial Insurance Companies, those organised in connection with Trade Unions, and

various other types of less importance numerically. Of these latter, Societies promoted by employers may be cited as a group which presents features distinguishing them in certain respects from other Societies. This division of the insured population into self-contained units is a fundamental feature of the present Scheme and it leads to remarkable consequences, both of a financial and of a social nature. The surpluses built up vary over a very wide range owing to the diversity of sickness and maternity experience in the different Societies, and the scales of additional benefits which can be provided are correspondingly varied. To this feature, which we regard as one of the central problems before us, we shall devote considerable attention in Chapter IX of our Report.

18. The accounts of Approved Societies and Insurance Committees are audited by the National Insurance Audit Department, which is a Department under the Treasury. A full statement as to the methods and results of these audits will be found in Appendix CI.