National Health and Contributory Pensions Insurance.

Memorandum by the Minister of Health.

1. I have intimated that it would probably be necessary to introduce a bill on National Health Insurance. This necessity arises out of the very serious effect on the finances of Approved Societies resulting from (a) very heavy expenditure on sickness and disablement benefits of women, particularly married women, and (b) very serious loss of contribution income by reason of unemployment.

2. The situation was fully dealt with in the Report of the Government Actuary on the Third Valuation of the Assets and Liabilities of Approved Societies (Cmd.3978). The facts there set forth have moved Societies to press for immediate remedial legislation and the opportunity of such legislation can be taken to deal with the question of prolongation of insurance, now depending on a temporary enactment for the period ending 31st December next.

I. Women's Contributions and Benefits.

3. The weekly health insurance contribution for women (9½d.) is insufficient to support the statutory benefits to which they are entitled, and an adjustment of the position is essential if serious losses, especially to those Societies least able to bear them, are to be avoided.

4. Table XIII of the Report of the Government Actuary shows that the total amount of sickness benefit paid to women during the inter-valuation period was 104 per cent. of the actuarial provision, while the amount of disablement benefit paid was 138 per cent. of the provision. These figures, however, represent the experience of five years taken together.
The claims were rising steadily throughout the period and the excess in 1927 and 1928, the last years covered by the valuation, was much greater.

5. The sickness claims of unmarried women rose by 29 per cent. and the disablement claims by 54 per cent. between 1923 and 1927. In the case of married women the increase in the same period amounted to 42 per cent. for sickness claims and 87 per cent. for disablement claims.

6. In 1930 and 1931 there was some improvement in the sickness claims largely as the result of action taken by the Department to improve medical certification and the supervision of claims by Societies, but there is no material improvement in disablement claims.

7. Figures showing the sickness and disablement benefit experience of a large representative group of Approved Societies have been obtained and these show that the amount paid in benefits to married women in the year 1930 was 75 per cent greater than they would have received if they had experienced the same amount of incapacity as unmarried women of the same ages.

8. As a result of their heavy claims nearly $3\frac{1}{2}$ million women have now ceased to be entitled to additional benefits. After the second valuation 98 per cent. of the women insured obtained additional benefits; this proportion is now reduced to 38 per cent.

9. In his report the Government Actuary states that it is clearly necessary that the whole position in regard to the finance of women's insurance should be considered; that existing surpluses can only provide a temporary bulwark, and that serious deficiencies are in prospect.

10. The practicable alternatives for dealing with the situation are:-

(a) an increase of the women's weekly contribution by 1d., and a reduction of their disablement benefit from 78.6d.
7s. 6d. to 6s. a week; or

(b) no increase in the contribution, but a reduction of disablement benefit for unmarried women from 7s. 6d. to 6s. a week, and, in the case of married women, a reduction in the rates of sickness and disablement benefits (see paragraphs 12 and 13).

11. Under alternative (a) the increase in the contribution should be placed on the employee (who at present pays 1d. less of the joint health and pension contribution than her employer). Increase of contributions in present conditions would seem in any case questionable as a matter of policy. But it has also to be remembered that the unemployment contribution has recently been increased and that provision is made, in Section 43(2) of the Contributory Pensions Act, 1925, for the combined pensions contributions for women to be increased by 1d. a week from 1st January, 1936. Moreover, any addition to the contribution payable by all insured women would aggravate the burden already borne by unmarried women for the benefit of the married, who normally are in a better economic position than themselves.

12. As regards alternative (b) the Government Actuary has estimated that on the basis of the experience of recent years, if the present contribution is retained, the rate of sickness benefit for all women should be reduced from 12s. to 10s. per week and the rate of disablement benefit from 7s. 6d. to 5s. per week. As in my opinion it would be difficult to justify such an all-round reduction in the benefits of insured women the Government Actuary has made an alternative calculation in order to show what benefits could be given to married women on the assumption that the unmarried women would receive sickness benefit at the present rate of 12s. a week and disablement benefit at 6s. a week (instead of the present rate of 7s. 6d.) On this basis the Government Actuary estimated that
that the benefits of insured married women should be fixed at the following rates:

- Sickness Benefit: 8s.6d. per week
- Disablement: 4s.3d. per week
- Maternity: £1 (instead of £2).

I feel that any reduction in the amount of the maternity benefit at the present moment would be unwise and that it would be very difficult to carry a proposal to reduce the sickness and disablement benefits of married women to such low rates as 8s.6d. and 4s.3d. a week respectively.

13. As mentioned above there has been a recent improvement in the sickness claims, and taking this in conjunction with the probability that some further reduction in the claims will follow on the diminished attractiveness of reduced benefits, I think that we should be justified in fixing the rates of benefits of married women rather higher than those indicated by the Government Actuary. I propose accordingly, that the rates of benefit for married women should be fixed at 10s. Sickness Benefit, 5s. Disablement Benefit, with no reduction in the Maternity Benefit.

14. It may be recalled that prior to 1920, when the benefits and contributions were increased, the rates of sickness and disablement benefits for women were 7s.6d. and 5s. respectively.

15. Under alternative (a) an increase of the weekly contribution by 1d. would ultimately involve an increase of the Exchequer Grant by £240,000 a year, although this would not begin to materialise for some years, but under alternative (b), there would be an immediate (though only temporary) reduction of the Exchequer Grant.
15. After full consideration I have come to the conclusion that the rates of benefit for women should be fixed as follows:

**Single Women Sickness Benefit** 12s. a week (present rate 12s.)

**Disablement** " 6s. a week (present rate 7s.6d.)

**Married Women Sickness Benefit** 10s. a week (present rate 12s.)

**Disablement** " 5s. a week (present rate 7s.6d.)

Maternity Benefit to remain at £2 in each case.

16. A recent deputation from the various groups, including the Trade Unions, was unanimous in preferring that the benefits should be reduced rather than that the contributions should be increased.

**II. Effect of Unemployment on National Health Insurance**

17. The second main problem to be considered is that of the loss of contribution income as the result of heavy unemployment. This involves two main questions -

(1) to what extent must the benefits of an insured person be reduced on account of arrears of contributions due to unemployment?

and

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for how long can insurance be continued after an insured person has ceased to be employed and to pay contributions?

19. Prior to 1928 insured persons in arrears were required to redeem them by a cash payment or were subject to a reduction of benefits. Under the National Health Insurance Act, 1928, following the Report of the Royal Commission on National Health Insurance, all arrears due to genuine unemployment were excused and involved no reduction of benefit. This was a great concession which was much valued and was thought to be possible having regard to the rate of unemployment prevailing in 1928. The Government Actuary points out, however, that, with unemployment at its present figure, the concession places on Approved Societies a burden of over £2,000,000 a year, which is altogether beyond their capacity. The result is a widespread undermining of financial soundness. With great reluctance I have come to the conclusion that arrears due to unemployment can no longer be completely excused. I propose accordingly that they should in future be excused only to the extent of one-half, so that one-half of the cost will be borne on the funds of the Societies and the remaining half by the individual insured person himself. This will involve either the making by the insured person of a moderate cash payment of a few shillings to be paid over four months to redeem his arrears or a corresponding reduction of his rate of benefit for the ensuing year.

20. In order to assist Societies to meet their share of the cost (about £1,000,000 a year), it is proposed that any Society which, on valuation, is found to be threatened with a deficiency as a result of this proposal should be entitled to relief/
relief out of the Central Fund, into which, in order to assist in meeting this additional liability, the unclaimed money from the sale of insurance stamps will be paid.

21. This proposal is a matter of great urgency as a new contribution year will begin in July and it is necessary that, well in advance of that date, Approved Societies should be in a position to notify their members of the new provisions.

22. I now come to (2) the question of continuance of insurance.

23. The system of prolonging insurance rights for some period after employment ceases is well established in national health insurance, but in a contributory scheme it is essential to avoid prolongation to such an extent as to place upon the funds a greater burden than they can bear. Under the Act of 1928, very generous provision was made for the continuance of insurance after cessation of employment. A period of free insurance of between eighteen months and two years was given with a further extension of twelve months at reduced rates of benefit, if the insured person had been continuously unemployed. A special provision was made whereby elderly persons, becoming unemployed after the age of 60 and having been insured for ten years, were kept in insurance until the age of 65 when the title to old age pension matures.

24. At the time it was thought that these provisions would satisfactorily cover all cases, but at the end of 1930 it was found that there was a considerable number of persons who had been without any work for several years, and whose insurance was consequently due to cease at the end of that year. The Government of the day introduced special legislation to extend the insurance of these persons for a further year,
the cost of the extension (about £90,000) being borne by the Exchequer as the Societies were unwilling to bear the cost, and many of them were opposed to prolongation.

25. Towards the end of 1931 the same problem had to be faced again as the unemployment position was no better and the Cabinet will remember that in November last they decided to provide for further prolongation of insurance until the end of the present year at a cost to the Exchequer of about £110,000, but as a purely temporary measure pending reconsideration of the whole question in the light of the Second Report of the Royal Commission on Unemployment Insurance. As amending health insurance legislation must be introduced at once to deal with the problem of women's insurance and arrears, I think it desirable to deal at the same time with the problem of duration of insurance and to put the scheme on a proper footing in this respect rather than to wait for the Report of the Royal Commission which is not, in my opinion, likely to have any very direct bearing on the question.

26. While I recognise that the basis of the 1928 Act, with its free period of insurance extending over 2½ years (on average) of unemployment is a very generous provision I am of opinion, having regard to the present high rate of unemployment, that some modification of the Health Insurance Scheme as contained in the Act of 1928 is necessary for some time longer, and that, in any case, we should include a permanent provision to preserve the title to widows' pensions for some period beyond the termination of Health Insurance (at present the Health and Pensions Schemes are co-terminous).
27. I therefore propose as regards those unemployed persons who are due to go out of Insurance at the 31st December next that they should be continued in the Insurance Scheme for one further year to 31st December 1933 and be entitled to Medical Benefit during that year (together with all Pension rights) and, thereafter, if a man should die within one year of ceasing to be insured his widow should remain entitled to her pension - that is to say, the genuinely unemployed man would have a free period of Health Insurance for a minimum of 3½ to 4 years, and for widow's pension of between 4½ and 5 years.

28. After December, 1933 the permanent provisions of the 1928 Act would apply (i.e., continuance of insurance status for 2½ years on average) with the provision that the title to widow's pension would always persist for one year after the cessation from Health Insurance (i.e. 3½ years on average in all).

29. It is proposed that the cost of prolongation for the year 1933 so far as regards health insurance should be borne on National Health Insurance funds generally through an adjustment of the transfer values which are carried to the Reserve Suspense Fund on the cessation of insurance.

30. The cost of the two years extension for Pensions during the first period of the operation of the Scheme, and one year's extension thereafter, would fall upon the Pensions Fund, and would, pro tanto, increase the liability of the Exchequer under that Scheme.

31. As a further and very attractive concession I would propose that, in the case of re-entry to employment and insurance within a certain time the qualifying conditions for widows/
widows pensions should be the lapse of 26 weeks, and the payment of 26 contributions, after re-entry, instead of 104 weeks and the payment of 104 contributions as at present.

32. I invite the concurrence of my colleagues in the introduction of legislation on the above lines, as soon as possible after the reassembling of Parliament. There is a meeting of the Approved Societies Consultative Council on the 8th of April, and it is most desirable that I should have the views of the Cabinet before that date.

(Intld.) S.H.Y.

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