

Case 16

Predecessor to Blue Cross and Blue Shield of North Carolina

The Duke Endowment, 1935

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Background. Concern about the extreme costs of hospitalization and the severe economic effects extended hospital stays would have on families was of increasing concern in North Carolina in the 1920s. Lack of access to adequate health care was also a major concern in the state, which ranked forty-second out of forty-eight states in doctors per capita and forty-eighth in hospital beds per capita.²²¹ The concern over rising costs of medical care and hospitals was a broader concern, one that the Committee on the Costs of Medical Care, a national body formed and funded by several foundations to address the problem in 1927, studied for five years.²²⁵

In the late 1920s, no public, organized, voluntary health service prepayment plan existed. Wilburt Davison, founding dean of the Duke University School of Medicine, was intrigued by the problem and began thinking about possible solutions to funding medical care. Through his studies in England as a Rhodes Scholar, Davison was exposed to voluntary, community-based prepayment plans for hospitalization. In the late 1920s, Davison, along with prominent Durham banker and philanthropist George Watts Hill, formed the Durham Hospital Care Association.²²⁶ The stock market crash of 1929 followed shortly thereafter, and the Association was forced to close.²²⁷

A plan similar to that imagined by Davison and Hill was implemented in 1929 at Baylor University Medical School in Dallas, Texas.²²⁸ That plan would become the first Blue Cross agency nationwide. Two years later, a citywide prepayment plan was established in Minneapolis-St. Paul, and a county-wide plan followed shortly thereafter in Newark, New Jersey.²²⁹ In 1932, the national Committee on the Costs of Health Care produced a majority report recommending “universal (if not compulsory) health insurance,” despite the relatively few group hospital prepayment or health insurance plans that had yet been brought into existence.²³⁰

There remained no such plan in North Carolina in the early 1930s, so Davison and Hill made another attempt.²³¹ In 1933, two men incorporated the Hospital Care Association (HCA) in North Carolina as a nonprofit corporation. Hill provided the capital for a cash operating fund. Additional funding came from the Duke and Watts Hospitals.²³² Their attempt was unique, even threatening to the political establishment; Davison and Hill were regarded as socialists for their efforts.²³³

Strategy. For the following two years, Graham L. Davis of The Duke Endowment, which had been established by James B. Duke in 1924, organized a group of leaders representing hospitals, medical professionals, and the public to study hospital prepayment service plans, particularly for the poor. The Duke Endowment, which was already making payments to hospitals in North Carolina for treatment of charity patients, had a special interest in prepayment programs for low-wage people to decrease the number of patients without either insurance or the financial capacity to pay their hospital bills.²³⁴ The study included trips by Davis and I. H. Manning, charter member of the HCA Board of Trustees and former dean of the UNC School of Medicine, to Europe to study prepayment plans. The group also studied the plans in Dallas, Minneapolis, and Newark.²³⁵

As a result of this study, in March 1935, the Hospital Saving Association came into being as a nonprofit corporation “for the purpose of providing a prepayment plan for hospital service to people of the entire state,” in part to compete with the Hospital Care Association.²³⁶ The Duke Endowment provided the first and only capital in the amount of \$25,000 to fund the newly chartered HSA.²³⁷

Impact. Only a few years after HSA was chartered, the American Hospital Association established its first set of guidelines and standards for nonprofit prepayment health care plans. The Hospital Saving Association appeared among its list of thirty-nine approved plans nationwide.²³⁸

For the next several years, the two organizations competed statewide for members of their health insurance plans. Until 1962, Hospital Saving Association was the only Blue Shield-approved prepayment plan in the state; Hospital Care Association was a Blue Cross organization. That year, HCA became Blue Shield certified, and the two organizations began to work together more closely. Five years later, after careful study, the boards of the two organizations voted to merge into Blue Cross and Blue Shield of North Carolina, Inc.²²⁹ Today, Blue Cross and Blue Shield of North Carolina, with its origins owing in part to the Duke Endowment, is the market leader in the North Carolina health care industry, serving approximately 2.9 million members.²⁴⁰

Notes

224. Lucille Fidler, "Fifty and Forward," (Chapel Hill: Blue Cross Blue Shield, 1983), 3.
225. Robert F. Durden, *Lasting Legacy to the Carolinas: The Duke Endowment, 1924–1999* (Durham: Duke University Press, 1998), 57.
226. Durden, *Lasting Legacy*, 58.
227. Fidler, "Fifty and Forward," 3.
228. Eugene B. Crawford, "History of Hospital Saving Association of North Carolina, Inc." (Chapel Hill: Blue Cross Blue Shield, 1968).
229. Ibid.
230. Durden, *Lasting Legacy*, 59.
231. William G. Anlyan, "The Evolution of American Medicine and The Duke Endowment Health Care (Hospital) Division Since 1924," *North Carolina Medical Journal*, Vol. 63, No. 2 (March/April 2002), 69.
232. Adam Searing, "Blue Cross Blue Shield History," *NC Justice Center*, <http://www.ncjustice.org/cms/index.php?pid=100>.
233. Anlyan, "The Evolution of American Medicine," 69.
234. Adam Searing, "Blue Cross Blue Shield History," *NC Justice Center*, <http://www.ncjustice.org/cms/index.php?pid=100>.
235. Crawford, "History of Hospital Saving Association."
236. Ibid.
237. Fidler, "Fifty and Forward," 4.
238. Crawford, "History of Hospital Saving Association."
239. Ibid.
240. "About Us: History and Facts," *BlueCross BlueShield of North Carolina*, <http://www.bcbsnc.com/inside/company>.