

## CHAPTER VII.

**THE FINANCIAL RESOURCES OF THE HEALTH INSURANCE SCHEME.**

154. One of the most important points confronting us in the course of our investigations relates to the question whether the whole of the present financial resources of the National Health Insurance system are in fact required to provide for the existing benefits and the related cost of administration, or whether, as has been urged from some quarters and notably by the National Confederation of Employers' Organisations, there is an appreciable margin which might be made available for other purposes. As we have seen in the preceding chapter, the Employers' Confederation advocate very forcibly a substantial reduction in the rates of contribution. On the other hand, many responsible witnesses press for extensions of benefit in various directions. Before we proceed to examine this important question of the margin, it will be helpful to give a brief account of the financial structure of the Scheme.

**THE FINANCIAL STRUCTURE.**

155. This need be attempted only in the broadest outline, as a detailed description of the financial machinery and of the numerous accounts relating to National Health Insurance is given in Section D of Appendix I to our Minutes of Evidence. That statement has been supplemented by oral examination (Q. 2127 to 2543) which revealed nothing of a substantial nature lending itself to adverse criticism. The financial machinery is undoubtedly elaborate in character and thus may offer difficulty to society officials untrained in accounting problems. But we are told that the actual work is not so complex as would appear on the surface (*Strohmenger*, Q. 2448), and that the Department strives to effect all possible simplification. In our opinion the arrangements are well devised and in general the machinery appears to work smoothly and effectively.

156. The revenue of the Scheme is derived from contributions and State grants. The contributions are in the main paid by affixing Health Insurance stamps to cards which have a currency of six months. For this purpose about £500,000 worth of stamps on the average are purchased week by week, by employers at Post Offices. The value of the stamps sold amounted in the year 1924 to some £27,000,000, and since the beginning of the Scheme in 1912 to the end of 1924 the receipt from sales of stamps amounted to upwards of £250,000,000. The Post Office pays over weekly the amount of these receipts to the respective National Health Insurance Funds. Employers on whom is imposed the responsibility for paying the full contribution affix

the stamps to the cards of their workpeople—the insured persons—from whose wages an appropriate deduction representing the employed person's contribution may then be made; and each insured person surrenders his card so stamped at the end of the half-year to his Approved Society, or to the Central Department if he is a deposit contributor. The cards which have thus been surrendered to the Societies are transmitted in bulk to the Central Departments and Societies are credited with the value of the stamps on the cards, after certain deductions, to be described later, have been made. The Central Departments thus act as bankers holding the credits of Societies.

157. The State grants are made in the form of a fixed proportion (at present two-ninths) of the expenditure on benefits and their administration.

**ALLOCATION OF THE WEEKLY CONTRIBUTION.**

158. The weekly contribution, as reduced by the Widows', Orphans' and Old Age Contributory Pensions Act, 1925, is 9d. for men and 8½d. for women. The following is the allocation of these contributions:—

	Men. d.	Women. d.
Benefit Fund and cost of administration ...	7½	7½
Reserve values (interest and redemption)	1	10
Contingencies Fund ...	5	5
	9	8½

159. The sums credited directly to the Societies represent the aggregate amount of their contribution claims at the rate of 7½d. a week in the case of men and 7½d. a week in the case of women. The Societies are also credited with the contributions applicable to their Contingencies Funds (at the rates, respectively, of 5d. and 3d.) subject to deductions not exceeding one-eighth for the support of the Central Fund. In the circumstances explained below this deduction is at present in abeyance and the full amount of the contributions apportioned to the Contingencies Funds is carried to the credit of the Societies.

160. The balance of the contributions represented by the Societies' returns, that is to say, the aggregate of the amounts produced by 1d. per contribution in the case of men and 9d. in the case of women, goes to form the fund for the redemption of reserve values and the payment of interest on outstanding reserve values. The need for these reserve values, which are book credits, and—what is, of course, more to the purpose—for their conversion into actual moneys which in due course will be available for the payment of benefits, arises in the following circumstances. The contributions were originally fixed at rates:

estimated to be equivalent in value to the benefits in the case of persons entering into insurance at the age of 16. The liabilities undertaken were, however, of such a kind (since the average annual duration of sickness and disablement grows with age) that the contributions so determined were insufficient for persons becoming insured at all ages between 17 and 70, such persons comprising, of course, the vast majority of those who became compulsorily insurable at the outset. To provide for the deficiency the State undertook to meet the charges under the Scheme in respect of two-ninths (the original fraction in the case of women was one-fourth) of the cost of benefits and administration, leaving the Societies responsible for seven-ninths of the cost. The effect of this was to enable two-ninths of the whole income from contributions to be retained by the Central Departments and applied to meeting the extra liability arising from the element of age as explained above. It then remained necessary only to make such arrangements as would enable each Society to receive a proportion of this income commensurate with the ages of its own members and the consequent share of the total liability which it had undertaken. This was secured by granting for each person who entered into insurance at an age over 16 a reserve value representing the liability arising in his particular case, according to his age, and by directing that, from the retained income, interest on these reserve values at the rate of 3 per cent. per annum should first be provided, the balance of the retained income of each year being applied as far as it would go to redeem the reserve value credits still outstanding.

161. It was originally estimated that the redemption would extend over  $15\frac{1}{2}$  years, but as the result of alterations made in the Bill during its passage through the House of Commons this period was extended to  $18\frac{1}{2}$  years. Further alterations were made in the Statute by the Acts of 1913 and 1918 and among them the Contingencies Funds of the Societies, and the Central Fund, were created by diverting to these purposes part of the moneys hitherto applied to the service of reserve values; this diversion was made retrospective to the beginning of the Act. The effect was to reduce, very materially, the sums available for the redemption of reserve values and to extend the estimated period of redemption to about 35 years.

162. Later, changes came about in the position as to reserve values as the result of the increase of benefits and contributions made by the Act of 1920, and, in minor degree, as the result of the revision of the financial provision made for married women by the Act of 1922.

163. Lastly, by the Widows', Orphans' and Old Age Contributory Pensions Act, the responsibility of the Approved Societies to provide sickness and disablement benefits to insured persons of ages between 65 and 70 was removed as from January, 1928, with the effect of diminishing the aggregate amount of

their accrued liabilities, as actuarially valued, by about £37,000,000. In consequence of this change the portion of the contributions retained for the service of reserve values was reduced from  $1\frac{3}{4}d.$  to  $1d.$  a week (men) and from  $1\frac{3}{4}d.$  to  $1\frac{1}{4}d.$  a week (women). The estimated amount of the reserve values outstanding at 31st December, 1926, is £61,000,000; it is expected that these credits will be redeemed, i.e., will be converted wholly into actual and invested assets, by about the year 1955.

164. As indicated in paragraph 159 above, the portion of the contributions which is applied to the Contingencies Fund is credited to the Societies. The Contingencies Fund of each Society is, in effect, a sub-account of the Society's Benefit Fund, and the amount standing to the credit of the account is carried to the Benefit Fund after each valuation. In the event of the valuation showing a deficiency the amount thus transferred from the Contingencies Fund is available immediately for the restoration of solvency; but if the valuation shows a surplus, the transferred sum must be retained until after the next valuation when, if the financial position permits, it is released and becomes part of the surplus available for the provision of additional benefits. The same provision applies with regard to any balance of a Contingencies Fund which may remain after making good a deficiency.

165. There are two exceptions to this method of dealing with the Contingencies Funds. In the case of a Society with Branches, although each Branch has its own independent Benefit Fund, the Contingencies Fund is common to the whole Society. It is required to be applied in the first instance to make good any deficiencies appearing on the valuation of Branches (subject to certain reservations in cases where deficiency is due to maladministration), any balance then remaining being distributed over the whole of the Branches in suitable proportions. The other cases of exception are those of Societies with less than 1,000 members. In these cases a proportion of the Contingencies Funds, not exceeding one-half, is liable to be called upon for the redemption of deficiencies among Societies in the group, thus ensuring that these small Societies which may be deemed to be liable to excessive fluctuations due to paucity of numbers shall have some further security beyond their own resources, additional to that which is provided for all Societies by the Central Fund.

166. The purpose of the Central Fund is to make good the whole or any part of a deficiency which remains unprovided for after a Society's Contingencies Fund is absorbed, or its rights against Contingencies Funds, as above explained, are exhausted, provided that the deficiency is attributable to causes beyond the control of the Society. It has been explained in paragraph 159 that a portion not exceeding one-eighth of the contributions to the Contingencies Funds may be retained by the Department concerned and credited to the Central Fund. In addition the

Central Fund is entitled to receive an annual Exchequer grant of £142,000 concurrently with the credit of the full sums authorised out of contributions. But under Section 68 of the Act this annual payment is reducible proportionately to any reduction which may be made in the contributions as a consequence of the financial position of the fund, and if the contributions are wholly suspended the payment from the Exchequer is suspended also. The Fund stood at £3,336,000 at 31st December, 1924, but against this balance there was a substantial liability in respect of part of the additional cost of medical benefit for the years 1925 and 1926 under the National Health Insurance (Cost of Medical Benefit) Act, 1924 (see paragraph 182 below), the effective balance of the Fund being about £1,500,000. On the first valuation there were only four calls upon the Central Fund, to a total of £8,750. The draft on the Fund having been so comparatively insignificant, the payment of contributions has been suspended since 1st January, 1921, and the Exchequer grant is, accordingly, in abeyance also.

167. The amounts credited to Approved Societies, Deposit Contributors, &c., or applied to the redemption of reserve values in respect of contributions paid up to 31st December, 1923, have been about £4,750,000 less than the receipts from the sales of stamps. The surplus is attributable to (1) stamps bought by employers but not yet affixed to cards, (2) cards stamped but still held by employers or Approved Societies, (3) lost stamps and unutilised stamped cards. The balance due to the first two causes is, we understand, estimated at about £1,500,000. This is considered to be a fairly constant amount from period to period, but it represents at all times an outstanding liability which will mature as soon as credit is claimed for the stamps of which it is made up, and it must be kept in hand accordingly. The balance attributable to stamps on cards which have not been and are not likely to be surrendered, or to loss of stamps by the public may have amounted up to 31st December, 1923, to more than £3,000,000. The bulk of this balance is required by the principal Act to be transferred to the Central Fund but, to meet a temporary difficulty, part of it was diverted to recoup Societies the arrears excused to members under the Prolongation of Insurance Act. In consequence of the question which had arisen in regard to the cost of medical benefit, the balance existing at 31st December, 1923, so far as not otherwise appropriated, was, in effect, applied by statute towards meeting that cost up to 31st December, 1926.

#### THE FIRST VALUATION.

168. The first valuation of the assets and liabilities of the Approved Societies was made as at 31st December, 1918. Full details of this valuation will be found in the Report of the Government Actuary (Cmd. 1662). The total number of

valuations of Societies and Branches in the United Kingdom (including Ireland) was 10,162, the total membership being 16,250,778. The accumulated funds of Societies at the valuation date amounted to £119,479,279, of which reserve values outstanding represented £64,017,994. The valuations showed an aggregate surplus of £17,192,968, this sum being the difference between total surpluses in 9,745 cases amounting to £17,273,887, and total deficiencies in 407 cases amounting to £80,919. In 10 cases the assets and liabilities were of equal value. The average amount of surplus was £1.08 per member, taken over the membership of the cases in which the surplus was found, while similarly the average amount of deficiency, taken over the cases in this category, was £.25. Of the total surpluses of £17,273,887, amounts aggregating £9,184,087 were certified by the valuers to be disposable in the provision of additional benefits, leaving sums amounting in total to £8,089,800 to be carried forward to the next valuation. In addition to these amounts there were also carried forward Contingencies Funds approximating closely to £6,500,000, the total of the sums carried forward thus being about £14,600,000. Of this sum about £14,000,000 may be attributed to Great Britain.

169. The total amount credited to the Benefit Funds of Approved Societies in respect of contributions from the commencement of the Act to 31st December, 1918, is estimated to have been about £87,000,000, and the aggregate surplus therefore represents 20 per cent. of the contributions received up to the valuation date. This striking and, in great measure, unforeseen result of the first stocktaking operation is attributed preponderantly to conditions set up by the Great War. What these conditions were, and what was their effect, is shown in considerable detail in the Report of the Government Actuary, and it is unnecessary for us to discuss them at any length. It is sufficient to say that the claims upon the funds for sickness and disablement benefits were below the "expectation" to an amount of £10,000,000; that maternity benefits cost £1,700,000 less than the sum provided for; that interest on investments produced £1,600,000 in excess of the yield required by the basic rate of 3 per cent.; and that interest on the growing surplus accounted for £1,200,000. In respect of each of these items, the Report referred to finds the governing factor in the profound and universal disturbance of the normal life of the community in the years over which the gigantic conflict extended. We lay stress on this conclusion because it precludes us from assuming anything as to the existence of a margin in the contribution from the results of the first valuation.

#### THE SECOND VALUATION.

170. The second valuations, which relate to Great Britain, are still in progress, and their complete results are not expected to

be available for some months. We are, however, given to understand that they are likely to show aggregate surpluses of between £40,000,000 and £45,000,000, of which about £17,000,000 is due to the sums carried forward from the previous valuation with their subsequent interest earnings. Much information as to the progress of the Societies in the inter-valuation period is contained in a statement which the Government Actuary's Department has submitted to us with reference to the valuations made as at 31st December, 1922 (App. LXXXVII). These cases comprise 3,981 units (Societies and Branches) and show surpluses amounting to £8,500,000 against deficiencies totalling £9,000 only. The average amount of surplus over a membership of 2,850,000 is nearly £3 a head; the average deficiency, in respect of under 11,500 persons, is 15s. 11d. It is possible that the units first valued do not constitute a wholly representative sample of the whole, but when due allowance is made for this we are justified in expecting that the results of the second valuation will be even more remarkable than those of the first. We are informed that, of the surpluses expected to be revealed, it is estimated that sums amounting to about £15,000,000 will be carried forward and £25,000,000 to £30,000,000 applied to additional benefits.

171. We are naturally concerned to ascertain the causes of what we must call such phenomenal progress. We learn from the statement mentioned that the claims have been but 71 per cent. of the expectation in the case of sickness benefit, 61 per cent. in the case of disablement benefit and 78 per cent. in the case of maternity benefit; that interest in excess of the product of 3 per cent. and interest on surplus have yielded over 11s. a head in the four years 1919-22, that appreciation of securities is an item of some consequence, and that a substantial sum is attributable to cessations of insurance with consequent lapse of rights in respect of additional money benefits granted after the previous valuation.

#### THE MARGIN IN THE PRESENT CONTRIBUTION.

172. General indications of these features of the present position were brought to our knowledge at an early stage of our deliberations. They raise the question whether with the lapse of time sufficient changes have occurred in the conditions governing the finance of the system of National Health Insurance to justify a re-arrangement of its financial basis, with the object of providing resources either for the enlargement of the statutory benefits or for meeting expected additions to the cost of any of the existing benefits. This, of course, is a technical question and that it might be examined authoritatively we requested the Minister of Health to set up the Actuarial Committee to the appointment of which we have previously referred. That Committee has presented three Reports which we print as

an Appendix on pp. 330-383. With reference to the first and principal of these Reports it will be observed that the Committee was asked to advise "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 re-arrangement 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."

173. The Report of the Committee shows that they have systematically analysed every element which enters into the financial basis of the system. It is unnecessary for us to traverse the whole field of their deliberations and we content ourselves, in this connexion, with a reference to two of the most important points with which they had to deal, namely the rate of interest at which the funds of the Approved Societies may be assumed to fructify hereafter by investment, and the rates of sickness and disablement to which the individual insured persons should be taken to be subject (on the average) as they pass from age to age.

174. On the first of these points the Committee bring out the fact that on actual securities (including securities representing the moneys in the National Health Insurance Investment Account which are held by the National Debt Commissioners) the average rate of interest at present yielded is between  $4\frac{1}{2}$  and 5 per cent. These securities represent about 55 per cent. of the interest-bearing assets, the remainder being accounted for by reserve values, which, under the plan described above, carry, by statute, the rate of 3 per cent. The average rate obtained in recent years has thus been something under 4 per cent. The Committee go on to explain, however, that the real funds are continuously increasing in amount while opportunities of investing the increments at high rates of interest remain, and for a long period are likely to remain, abundant; and that on the other hand the low-yielding reserve values have been heavily diminished by the provisions of the Widows', Orphans' and Old Age Contributory Pensions Act of 1925, and will be reduced still further by other changes, resulting partly from the Committee's proposals and partly from the cancellation or redemption of several millions of these credits in the application of the regulations as to balances in the Reserve Suspense Fund. They have, therefore, satisfied themselves that the average rate of interest obtained will immediately rise above 4 per cent. and they expect it to remain at or about that figure for the next 30 years, after which an opportunity for reconsideration of the rate will, in any case, present itself. They accordingly propose that in the new financial basis of the system the rate of interest taken shall be 4 per cent. per annum instead

of the present rate of 3 per cent. It should be noted that this proposal involves no change in the rate of 3 per cent. which is credited on reserve values. It is also worthy of observation, as bearing upon the Committee's recommendation, that the interest income of Approved Societies is not subject to income tax, and that regard may consequently be had to the gross rate earned.

175. With reference to the average annual rates of sickness and disablement for which provision should be made, the Committee draw attention to the fact that while among both men and women the claims for sickness benefit have been below the "expectation" of the present basis in the years 1919 to 1924 there are disquieting features in the course of the claims from year to year, especially among women. In the case of disablement benefit the Committee evidently look with concern upon the rapid increase in the claims which they have found and from which it appears that among both men and women the cost of this benefit in relation to the expectation, has doubled itself between 1919 and 1924. It is evident that the Committee have met with difficulty in dealing with these elements in the situation, and so far as women are concerned they have found themselves precluded from coming to a final decision. They propose, so far as relates to men, to retain the Manchester Unity Experience, 1893-97, on which the present basis in respect of sickness and disablement is founded, but to eliminate the addition of approximately 13 per cent. to the Manchester Unity rates for which that basis provides. In regard to women, they propose to discard the present basis and to substitute a new basis drawn from the experience of a large sample of the female insured population in the year 1923, with a loading of 10 per cent. to the sickness rates thus obtained. The explanation of the choice of a single year's experience for this purpose instead of that of the three years 1921-23 which the Committee examined, is that the claims were rising steadily throughout the three years, with the result that the experience of 1923 was sensibly higher than the average of the whole period. The Committee explain that in fixing the loading at 10 per cent. they have had regard to certain small margins which they find to be available for the assistance of the Societies.

176. With reference generally to the experience of sickness and disablement claims which the Committee examined, they draw our attention to a Memorandum appended to their Report which contains the results of a study by the Government Actuary's Department of some of the more difficult features which this experience presents. They consider that these results should be examined, with a view to effective action, by the responsible Departments, and we concur in this opinion. The features to which attention is directed are evidently widespread and they should receive the serious attention not only of the Departments

but also of the Societies, which have a direct and legitimate interest in the claims upon their funds for sickness and disablement benefits. We cannot but feel that statistical inquiries of the kind for which the present investigation has provided the opportunity may be of the greatest value in aiding efficient administration, and we would recommend the systematic institution of such inquiries, to be followed, systematically also, by conference with the Societies upon such features of apparent significance as the inquiries may reveal.

177. The importance of this subject is emphasised by consideration of the Committee's Report in another aspect. We shall proceed immediately to discuss the margin in the contributions which the Committee find to be available for new purposes, and we shall be compelled to indicate at various points in this Report that we are restricted, in our recommendations as to various extensions, by the comparatively small sum which remains after provision has been made for certain additional liabilities which must in any case be met. It was, perhaps, too early in the history of the Scheme, especially having regard to the abnormal conditions which have prevailed for a considerable part of the time during which it has been in operation, to have expected that the question of the margin in the contributions could be permanently settled at the present time; and from this point of view we might reasonably look forward to the results of another investigation after further experience, under more settled conditions, has been gained. But it is evident that if the upward tendency in certain of the claims for money benefit cannot be brought under control, there is little prospect of more money being released for new purposes at a later date. It is clear that the best interests of the Scheme would be served if a basis for hope, in this connexion, could be developed. Considering the beneficial results on the health of the insured community which ought to follow from the medical service provided by the Act, and considering also the general advance in the education of the people and the greater appreciation of hygienic conditions which, as a result, is being disseminated, we feel that it is not unreasonable to look for improved conditions so far as the claims are concerned. But we realise that such an improvement may not be fully secured without a general and definite endeavour to keep the claims within their proper limits, regard being had, of course, to the just and equitable treatment of the insured persons. Systematic attention to the statistical results of the Approved Societies' work would assuredly promote the realisation of that improvement and should accordingly be given a prominent place among the matters of administration to which the attention of the Departments and the Societies is continuously directed.

178. The effect of the Committee's proposal, so far as relates to the contribution payable to the Benefit Fund is to reduce the

rate in the case of men from 7.44d. to 6.55d. and in the case of women from 7.20d. to 6.85d., thus releasing weekly .89d. from the man's rate and .35d. from the woman's rate. It will be noticed that, as reduced, the woman's contribution is higher than the man's, although the woman's benefits are the lower. The Committee point out that this is the direct result of the heavy sickness and disablement claims among insured women. A further consequence of the change of basis is to reduce the reserves required at all ages over 16, and the Committee propose to utilise this element of relief to diminish the reserve values. They further bring into account the balance of the Reserve Suspense Fund, which is estimated to grow to £17,000,000 by 31st December, 1926. Under existing regulations—which they assume will be applied in their integrity—this balance is to be applied to the cancellation or redemption (as the case may be) of reserve values, and in the normal course would have the effect of shortening the redemption period. The Committee see no reason for this curtailment of the redemption operations, and accordingly propose to utilise the reduction of the reserve values, under both the heads just mentioned, to diminish the part of the contributions which is retained to provide interest on and the redemption of reserve values. The reduction thus obtained is .35d. from each weekly contribution in the case of men and .32d. in the case of women. Finally, in this connexion, the Committee examine the part of the contribution which is paid to the Contingencies Funds, and arrive at the conclusion that it may properly be reduced to a farthing a week in the case of all members of Approved Societies, whether men or women. The release from the weekly contribution under this head is therefore .31d. (men) and .15d. (women).

179. The total result of all the above proposals would be to set free out of the present contribution an amount of 1.55d. a week in the case of men and .82d. per week in the case of women. In order that the effect of this may be clearly seen the Committee explain that, after allowing for the State grant of two-ninths, these sums would provide, throughout life, 7s. a year in the case of men and 3s. 9d. a year in the case of women, which amounts would thus become available for purposes for which no present provision is made from Societies' funds. These latter figures would not, of course, afford assistance in the consideration of any form of expenditure, e.g., an addition to sickness or disablement benefit, which involved a variation of the charge with reference to age or family responsibility.

180. The Committee point out that the effect of applying the sums released for any new purposes would be to absorb about £15,000,000 of Approved Society funds in the course of a quinquennial period. The chief result of this, no doubt, would be to reduce the surpluses of Societies at succeeding valuations by

something approaching this amount; but a secondary effect of some consequence would be to throw into deficiency a number of Societies which at present have no surplus or only small surpluses, and are consequently unable to meet any additional strain on their resources. The Committee estimate that Societies comprising about 10 per cent. of the whole insured community might be placed in this position and they recommend, accordingly, that any balances accruing to the Reserve Suspense Fund after 1926 should be utilised to give sufficient financial assistance to Societies of this class to enable them to maintain a condition of solvency.

181. The Committee point out that their proposals do not involve any draft upon the accrued surpluses of Societies which, with the related Contingencies Funds, and apart from surplus in course of distribution under current schemes for additional benefits, must amount, they estimate, to something considerably in excess of £35,000,000 at 31st December, 1926.

#### FIRST CALL ON THE MARGIN.

182. The margin in the contribution which results from the Committee's proposals amounts in all, with the related State grant, to about £4,500,000 a year. The first charge on this amount must, we think, be the balance of the cost of the present medical benefit, *i.e.*, the excess over the sum of 9s. 3d. per insured person per annum for which provision is made in the Consolidation Act of 1924. Temporary provision for defraying this balance from various sources for three years was made by the Cost of Medical Benefit Act of 1924 (see paragraph 142, Section C of Appendix I to our Minutes of Evidence). But even were it desirable to continue to have recourse to similar expedients in future it would be impossible to rely on money being available from the same sources, more especially in view of the fact that the present temporary provision is likely to prove inadequate in England and Wales, and that the consequent deficiency must, in our opinion, be met by an increase of the temporary provision referred to. On the official evidence before us, the sum which it will be necessary to provide to cover the whole cost of the present medical benefit after 1926 will be 12s. 6d. per insured person per annum. We recommend that the whole of this sum should be provided in future from the funds of Approved Societies, as in the case of benefits in general. A problem of draftsmanship will no doubt arise in framing the statutory provision so as to meet the continuing difficulty in estimating the annual cost of drugs. In this connection reference may be made to the evidence of Mr. Brock and Dr. Smith Whitaker (Q. 23,993).

#### APPLICATION OF BALANCE OF THE MARGIN.

183. If the above recommendation be adopted the margin of 7s. 0d. in the case of men, and 3s. 9d. in the case of women, will

therefore be reduced to a sum of 4s. 0d. a year in the case of men and 9d. a year in the case of women throughout life, or the equivalents of these amounts in the event of the adoption of a form of benefit which does not involve an equal expenditure in every year of insured life. The main question for consideration is the manner in which this balance in the margin should be applied. The following possibilities emerge :

(1) It could remain as a margin, in which case it would serve to strengthen the financial position of all Societies on valuation, affording permanent support for additional benefits, in the case of what, we hope, will continue to be the great majority of Societies.

(2) It might be applied towards the cost of one or more of the various extensions of the statutory benefits which have been suggested.

(3) It might be used to reduce the cost of the Scheme to one or more of the three contributing parties, viz., the insured persons, the employers and the State.

184. There is something to be said, no doubt, in favour of the first of these courses, bearing in mind, particularly, the features of the sickness and disablement experience to which the Actuarial Committee have drawn attention. But in view of the fact that the Committee, relying, no doubt, on the exercise of effective supervision of the claims, express the opinion (in paragraph 29 of their First Report) that the whole of the margin may be applied to new purposes, we do not think it incumbent on us to recommend that any part of it should be retained as a provision in respect of present liabilities.

185. With reference to the second of the three alternative courses, we deal in Chapters X to XII with the various forms of extensions of benefit which have been recommended to us, and indicate, in regard to those which we regard as practicable, the extent to which the available margin would render their adoption possible, at the same time stating the order of priority in which, in our opinion, the various alternative extensions should be placed.

186. As regards the rates of contribution, a reduction of 1d. in the joint weekly contribution of 9d. in the case of men would be possible if such reduction could be deemed to be expenditure on benefits for the purpose of attracting the State grant, but the division of this 1d. between the employer and the worker would probably be objectionable to employers, as it would involve the deduction of an odd  $\frac{1}{2}$ d. from wages. If the whole 1d. were taken off the worker's contribution, the result would be that the deduction from the wages of an employed woman for Health Insurance would be 4d. as against  $3\frac{1}{2}$ d. in the case of an employed man, though the woman's rate of sickness benefit is lower than that of a man. The deduction of the whole 1d. from the

employer's share of the contribution would be possible, but would probably give rise to dissatisfaction as reducing the employer's share of the joint contribution below that of the worker, a position which, in any case, would be inconsistent with that existing in the case of women, where the employer pays for the combined health and pension benefits 1d. a week more than the worker. These difficulties in the way of devising any reduction of contributions which would be free from serious objection preclude us from recommending that the margin should be utilised in this way. In coming to this conclusion we are assisted by the fact that, in view of the small margin available, no reduction of the contribution would be possible, in any case, in respect of women.

187. There remains the possibility of using the margin, or part of it, to reduce the charge upon the State. We do not regard it as falling within our province to consider whether such a reduction should be made, but we have been impressed by the extent to which the original conditions under which the State grant was fixed have been altered by subsequent events, and we think it incumbent on us to explain the situation as it presents itself to us.

188. We have shown in paragraph 160 that the State grant was fixed at two-ninths of the benefits in consideration of the imposition upon the contributions of the insured persons and their employers of the liability to provide the necessary reserves in respect of seven-ninths of the benefits for the population brought into insurance at the outset. It followed from this arrangement that from the increase of benefits in 1920 up to 31st December, 1925, the charge upon the contributions for this purpose was  $1\frac{2}{3}$ d. a week in the case of men and  $1\frac{2}{3}$ d. a week in the case of women. By the Pensions Act of 1925 these rates were reduced, respectively, to 1d. and .90d., while the Actuarial Committee recommend, in connexion with the change of basis, that if the margins are applied uniformly over life, as explained above, they should be further reduced to .80d. and .60d., respectively.

189. Reductions of over 50 per cent. in the contributions of the insured for the redemption of reserve values are thus envisaged. At the same time the Exchequer continues liable to provide its correlative grant of two-ninths of the expenditure on benefits, and this is only to be abated by the cessation from 1928 onwards of the grant in respect of sickness and disablement benefits to persons aged between 65 and 70, a relief which amounts to no more than 7 per cent. of the full charge. The disparity between the relief which is to accrue to the insured persons and that which the State obtains on its related obligation is emphasised by certain of the causes to which the reduction in the reserve values is due. These are the provision of pensions at the age of 65, which has imposed a heavy charge on the State, and the increase in the rate

of interest due to the War which, as all are aware, has added enormously to the burdens of the taxpayer. The remaining cause of the reduction is the lapse from insurance of a considerable proportion of those who were brought within the Scheme at the outset and in respect of whom reserve values, which have subsequently been withdrawn, were provided.

190. The balance of margin in the contribution may be estimated as equivalent, with the appropriate State grant, to £2½ millions a year. This margin is due to extraneous causes, among the most important of which is the general increase in the rate of interest on post-War investments, to which we have referred above. No income tax is payable on the interest earnings of Approved Societies, and the members of those Societies, accordingly, secure the full benefit of this increase and are able to claim additional State grant in respect of a rate which itself reflects the weight of a national burden from which they are free. Having regard to the fact that the additional resources made available to the insured in this way and in the appreciation of investments which has already been realised will go almost in their entirety to supplement the benefits originally provided by Parliament, it is clear that the relations between the general body of insured persons and the Exchequer are more favourable to the former than has been generally supposed hitherto. While we have felt bound here to explain the situation in which this result arises, we do not desire what we have said to be regarded as qualifying the recommendations which we make in later chapters of our Report in regard to the application of any margin in the existing scheme.

191. We have recommended, in paragraph 182, that the cost of medical benefit, not hitherto borne by the funds of Approved Societies and expected to amount in future to about 3s. a year for each insured person, should now be placed upon those funds. On this recommendation a question arises with reference to the rate of contribution for men who are serving with the Forces of the Crown and to the special foreign-going rate of contribution for men of the Mercantile Marine. These rates of contribution are reduced, in each case, by the equivalent of the normal benefits which are not provided for insured persons in the classes to which they respectively relate, and, as a consequence, the rate for men in the Forces is 3½d. a week instead of 9d., and the foreign-going seaman's rate is 7d. instead of 9d. One of the benefits not provided for men who are serving with the Forces is medical benefit; so far as the Mercantile Marine is concerned, this benefit is not provided for a man while he is on foreign articles, and the liability for any medical attention that he may require rests upon his employer under the provisions of the Merchant Shipping Act, 1894. When, therefore, the cost of medical benefit in the case of civilian insured persons is increased, the reductions already made from the normal contribution in the case of these special

classes should be increased, the special rates of contribution thus being diminished. The question is a little complicated, because sickness benefit is also one of the benefits withheld in the circumstances indicated, and under the proposals of the Actuarial Committee the provision to be made in future for this benefit is to be slightly decreased. After bringing this into account, we are informed that the reduction from the civilian contribution, in the case of both the classes under discussion, should be increased by ½d. a week. Accordingly, the special rate for the men serving with the Forces should in future be 3d. a week instead of 3½d., and the rate for foreign-going seamen should be 6½d. instead of 7d. The fraction of three-sevenths, mentioned in the proviso to Section 62 (3) of the Act of 1924, should become three-fifths.

192. The same point arises in respect of the extensions of benefits which may be provided from the other part of the margin released under the recommendations of the Actuarial Committee. In so far as this margin may be applied to the provision of benefits which the man serving with the Forces cannot obtain, the contribution paid for him should be reduced correspondingly. Similarly, if in any material degree the foreign-going seaman is debarred by the conditions of his employment from obtaining the new benefits the contribution paid for him should be adjusted. But until the new benefit has been definitely selected its incidence at the ages of the men concerned cannot be estimated and its effect on the contributions of these special classes cannot be computed. At the present stage, therefore, we must content ourselves with drawing attention to this point.

193. A similar adjustment is necessary in the case of a voluntary contributor with an income exceeding £250 a year. Such a contributor is not entitled to medical benefit, and the Act provides that, in consideration of this, a reduction of 2d. a week is to be made in the contribution payable by him. This amount represents approximately the payment (viz., 9s. 6d. a year), which is made out of the funds of Approved Societies in respect of the cost of medical benefit for each of their members. If, in accordance with our recommendation, this sum of 9s. 6d. is increased to 12s. 6d., the reduction of 2d. a week should be correspondingly increased to 3d.

#### FINANCIAL READJUSTMENTS.

194. On the more technical points brought to our notice by the Actuarial Committee, we are naturally inclined to follow the expert professional advice offered to us, and we accordingly make the following recommendations:—

- (1) That Section 67 of the Act should be amended to provide that the amount of the weekly contribution to be devoted to providing interest on and redemption of reserve values be reduced from 1d. in the case of men and from nine-

tenths of 1*d.* in the case of women to such amounts as may be actuarially shown to be necessary, without disturbing the redemption period, after the charges and readjustments have been settled.

(2) That the Section should also provide that the amount of the weekly contribution to be retained for the purposes of the Contingencies Fund and the Central Fund should be reduced from five-ninths of 1*d.* to one farthing in the case of men and from two-fifths of 1*d.* to one farthing in the case of women.

(3) That the normal proportion of these reduced sums to be paid to the Central Fund should be increased from one-eighth to one-fourth.

(4) That Section 76 (5) of the Act be amended to provide that, consequentially on the reduction of the contribution to the Contingencies Funds, the whole (instead of a maximum of one-half) of the balances of the Contingencies Funds of all Societies with less than 1,000 members should be liable to be pooled to make good deficiencies in any such Societies.

(5) That the balances accruing to the credit of the Reserve Suspense Fund after 31st December, 1926, be made available for averting deficiencies which would otherwise arise on the valuation of Approved Societies by reason of the imposition on their funds of the new charges.

#### AN ALTERNATIVE FINANCIAL SCHEME.

195. Reference may conveniently be made in this Chapter to an alternative financial scheme to that at present in force which has been submitted to us by Mr. Walter Farris and upon which we had the benefit of hearing Mr. Farris in person. Mr. Farris's proposal is based upon the proposition that the structure of the Act on its financial side is productive of much unnecessary labour and expense, and that, in his own words, "if we could only break away from this actuarial system much of our labours and troubles would disappear" (App. XCIV, 3). We cannot attempt to give an exhaustive explanation of the plan which Mr. Farris has submitted, but broadly it is that the reserve values should be abolished and that Societies should cease to be credited with the contributions of their own members or of any sums in redemption of reserve values, being credited yearly in lieu thereof with the amounts estimated to meet the cost of normal benefits to their members during the following year; such amounts being computed in each case on the actuarial basis of the Act and in accordance with the ages of the members of the Society or branch. Incidentally, the scheme would require, as Mr. Farris admitted (Q. 22,323-22,332), the transfer to the Central Departments of all the securities in the hands of the Societies representing funds invested by their own trustees and amounting at the present time to between £40 and £50 millions. In this direction, therefore, the proposal would eliminate one of the most

important elements of self-government as existing under the present system. We cannot think, after examining this proposal, that it affords any promise of curtailment of work, since while some accounting and actuarial operations would cease to be necessary, others would take their place. Nor do we think that the proposal is to be recommended on its merits otherwise. By the substitution of the year for the quinquennium as the unit of time in regard to which the benefits are actuarially regulated, it would conduce to a frequency of change in the benefit arrangements from which under the present system they are free, while it would create problems of particular difficulty, and as the scheme was expounded to us would certainly result in the relaxation of control, in regard to those Societies that are expending in benefits much more than the general average. We therefore consider that there is nothing in the scheme or in the reasons put forward in its support to warrant us in recommending its consideration.