

## CHAPTER IX.

**INEQUALITIES OF BENEFIT IN DIFFERENT  
APPROVED SOCIETIES.**

245. We now come to the main ground on which the Approved Society system, as it now exists, has been attacked by many of the witnesses who gave evidence on the subject, namely, the serious inequalities of benefit to which the system gives rise. It has already been explained that under the scheme laid down in 1911, and continued to the present date, each Approved Society is a separate financial unit, controlling its own funds and standing to gain or lose as the result of its own experience. Any surplus found in the funds of a Society on valuation can be used solely for the benefit of the members of that Society. Although the Act provides for a flat rate of contribution from members of all Societies, there has been a wide variation in the amounts of the surpluses in different Societies on valuation. As a result of the first valuation as at the end of 1918, some Societies were still unable to give anything more than the normal statutory benefits, while others had sufficiently large surpluses to enable them to provide their members not only with substantial increases of the normal cash benefits but also with valuable additional benefits in the nature of treatment. The results of the second valuation are not yet completely available, but it is clear that the divergences will be even greater than on the occasion of the first valuation; for while it has already been found that some Societies will still be unable to provide more than the normal statutory benefits, in the more fortunate Societies the surplus on the second valuation is being found to be about three times as large as that which they enjoyed on the first. We are not surprised that these great disparities should have occasioned disappointment and dissatisfaction in certain quarters, and that they should have provoked keen criticism of the present system.

246. It will be useful at this point to illustrate by actual figures the range of divergence to which we refer. In Appendix A of the Report of the Government Actuary on the First Valuation (Cd. 1662) is given a complete statement of the surpluses and deficiencies of all the Societies. But to measure the real extent of the disparities we must find the results reduced in some form to a rate per unit of membership. For this we may refer to Table X of the same Report. We may also refer to a table and diagrams which we asked Sir Walter Kinnear (Q. 813-8) to prepare for our use. We should explain that a "unit" in these diagrams is the equivalent of a combined addition of 1s. to the weekly rate of sickness benefit, 6d. to that of disablement benefit and 2s. to maternity benefit. It will be seen that the range of units of disposable surplus is considerable, the highest

being five times the lowest and that large blocks of insured persons are included at each stage of the range. The fact that 1,880,630 insured persons failed to participate in any surplus at all while more than one-third of that number were entitled to the full five units is worthy of note; we think that the diagrams referred to furnish the most graphic exposition of the financial results of segregation under the present system.

**CAUSES OF SURPLUS.**

247. The emergence of a surplus on valuation is due to a great variety of causes, some within and others outside the control of the Society. We propose here, however, to refer only to those two possible causes which were most frequently mentioned in evidence before us. The first is the segregation within a Society of lives much above or much below the general average as regards liability to sickness. For example, a Society composed mainly of rural workers could hardly fail to show a much more favourable result on valuation than a Society composed mainly of chemical workers. The second cause of surplus which was constantly quoted in evidence was careful administration, particularly as regards the supervision of claims for benefit. Undoubtedly, good administration must be a contributing cause to a satisfactory valuation result, even if it is thought that when compared with the other cause to which we have referred, it has been but a minor factor. We should like to make it clear that in advancing this proposition we are in no way lending our support to any suggestion that good administration is relatively unimportant. But we are inclined to think that, even if it were possible hypothetically to assume a uniform standard of administration throughout all Societies, the discrepancies which would have resulted would have been almost as great as those which have in fact emerged, and we are strengthened in this view by the consideration that there are prosperous Societies in which administration is not strict and unfortunate Societies which are unfortunate despite strictness of supervision.

**RESULTS OF SEGREGATION.**

248. The evidence which we have received on this matter has inclined to one or other of two extremes, each of which can be supported by arguments of some force, but neither of which, as we shall show later, commends itself to us. On the one side it has been represented that the position which has now revealed itself as the result of the first two valuations was only to be expected and was clearly foreseen and explained and defended in the most definite terms when the scheme of National Health Insurance was first before Parliament in 1911. Our attention has been called to various statements, in Parliament and elsewhere by responsible Ministers and others, containing pledges

that every Society would have complete control over its own funds, and that any advantage arising out of a favourable valuation of those funds would be confined to the members of the Society. (See National Conference of Friendly Societies, Q. 5358; Joint Committee of Approved Societies, Q. 8298; Prudential Approved Societies, Q. 9684; National Council of Agriculture, Q. 21,075.) In opposition to this view the extremists of the other school of thought maintain that in a national system of insurance, which derives its funds from contributions compulsorily payable by the insured and their employers, there should be uniform benefits for all. We propose to deal at some length with each of these contentions.

249. In the pursuit of our task of reviewing the whole Scheme of National Health Insurance and considering what changes are desirable with a view to making the Scheme of the greatest possible benefit to the insured community, we cannot take the view that we are limited by the necessity of adhering to any particular principles on which the Scheme was originally set up, or by any statements which were made at the time of the inception of the Scheme in explanation or in defence of the provisions contained in the original Bill. On the contrary, we hold that the National Health Insurance Scheme was in the nature of a great and novel experiment in the field of social welfare, and that it must now be open to Parliament, untrammelled and unfettered, to review the whole Scheme in the light of 13 years' experience of its working and to make such changes, however drastic, as that experience may have shown to be desirable.

250. As regards the other school of thought, that, namely, which holds that in a national scheme of compulsory insurance, with uniform contributions, benefits should be payable to all on a uniform basis, we think, in the first place, that this would be incompatible with administration through Approved Societies, whether such Societies were organised as at present or on some other basis, e.g., territorial or occupational. In any sound system of insurance finance it is obvious that the power to admit claims on the fund cannot be bestowed where there is no responsibility for the solvency of that fund. A uniform rate of benefit to all insured persons implies a single fund, and it would be administratively and financially indefensible to contemplate such a fund being operated upon by independent bodies freed from the responsibility for the consequences of their actions. Several witnesses who advocated the equalisation of benefits put forward as an argument that without it the Scheme could not properly be described as "national." The word "national" is, perhaps, one to be avoided where precision of thought is desired, as the meaning attached to it is not itself precise. The mere fact that the Act of 1911 was entitled the "National Insurance Act" does not,

we think, entitle critics of the existing Scheme to contend that it should contain these features which, as some consider, the word "national" connotes. On a consideration of the word "national," as ordinarily used in countless expressions (such as the National Debt, the National Forces and similar phrases), it is obvious that whatever the word may mean, it does not necessarily imply equality either of enjoyment or of burden as between the various individuals within the nation. The merest glance at the provisions of the Act suffices to show that whatever theories inspired the framers of the Act of 1911, they did not intend to establish a scheme of that comprehensiveness and uniformity which it is sometimes suggested a national scheme should show. In the first place, the Scheme by no means included the whole population; secondly, and more particularly at the outset, there was a large measure of differentiation between the treatment accorded to the different classes who were brought within the Scheme; thirdly, without descending into the turbid and acrimonious disputes of 1911, it is clear, alike from the provisions of the Act and the debates on the Bill, that it was contemplated that different rates of benefit would emerge. Despite the title of the Act of 1911, that Act did not set up and was not designed to set up a "national scheme" in the sense sometimes attributed to that phrase. In the description of the Act, which is more important than its short title, it is properly referred to as "an Act to provide for insurance against loss of health and for the prevention and cure of sickness," but there is no *a priori* reason why an Act to promote these ends should in the common phrase "treat all alike," in the sense of guaranteeing a uniform rate of benefit for a uniform rate of contribution. In any event, the scheme of Health Insurance contemplated in 1911 was only a national scheme in the sense that the State undertook to enforce the payment of contributions in respect of those to whom the Act applied. It was thus a State scheme which relied for its fulfilment on voluntary effort, and which in intention was careful to make the utmost use of voluntary and competing organisations already in the field. On a survey of the present position it may appear to some arguable that a different scheme should be established now, but it is not, we think, permissible to base such an argument on a supposed conflict between the "national" promise of 1911, and the subsequent failure to realise these earlier ideals.

#### THE SUGGESTION OF TERRITORIAL SOCIETIES.

251. Several witnesses suggested, as a solution of the inequalities arising under the Approved Society system in its present form, that it should be replaced by a system of Societies on a territorial basis as, for example, by forming a Society in each County and County Borough in which all insured persons resident in the area would be included (*Gordon*, App. XIII, 20; Q. 7502). Such

a system might have some advantage over the present system, but we fail to see how it could be expected to solve the particular problem with which we are here dealing. Under the present system an insured person is free to choose the Society to which he shall belong, and if he selects a Society which proves to be relatively unsuccessful and, as a consequence, unable to provide substantial additional benefits, he is, to some extent, responsible for the unfortunate position in which he finds himself. If, however, Societies were organised on a territorial basis and every insured person were compelled to belong to a particular Society determined solely by his place of residence, it would be far less easy to justify the position arising as a result of the more favourable experience of some Societies than of others. Nor can there be any question that such a position would arise, as the difference of experience between, say, the County Society for Durham and the County Society for Dorsetshire would be substantially the same as that between a society for miners and one for rural workers.

252. Our conclusion that a system of Territorial Societies would not avoid the disadvantage of widely different financial results on valuation receives illustration in the table printed as Part X of Appendix A to the Report of the Government Actuary on the first Valuation (Cmd. 1662). In that table is shown a summary of the results of local societies and branches in England, grouped under the counties in which their offices are situated. (The large centralised societies are not included, but the table covers nearly four million insured persons.) The average net surplus per member is 24s. From this average there are variations as high as 39s. 1d. in Sussex, and as low as 5s. 1d. in Northumberland and Durham. The experience of all the separate counties shows that no uniformity of results is to be expected from a system of Territorial Societies.

#### JUSTIFICATION FOR VARIATIONS IN BENEFITS.

253. After the most careful consideration of the subject we have come to the conclusion that with a flat rate of contribution from all insured persons, whatever their liability to sickness, the provision of varying benefits can be justified. We are impressed by the fact that the inequality of experience between different Societies is accompanied by a considerable inequality in wages. For example, agricultural workers who receive lower wages than the average artisans show better results under National Health Insurance. It was mainly on the ground that agricultural workers are on the whole less liable to sickness than persons engaged in other occupations that a demand was made on their behalf in 1911 for a lower rate of contribution and it was chiefly on the ground of the administrative difficulties of differentiation in the rate of contribution that this demand was resisted. At the same time it was

pointed out that by grouping themselves in special Societies agricultural workers would be able substantially to attain the same ends, as they would thereby reap the advantages of their light sickness experience in additional benefits which might take the form of return of contributions. It is perhaps worthy of notice that the claims of the agricultural population to be conceded a reduced rate of contribution have again been put forward. Thus, the National Farmers' Union of Scotland contend (App. LXXI; Q. 19,172-19,399) that the rate of contribution is, in the case of agricultural workers, more than sufficient to meet the cost of the benefits of that class, and that a variable rate of contribution based on sickness risks should be instituted. They point out that in the case of Societies consisting preponderantly of members residing in urban districts the contribution is only sufficient to support the normal benefits, whereas purely agricultural Societies show large surpluses. They state that "Agriculture is a healthy industry and stands apart from all other industries in this country. In all other respects it is treated separately. For instance, it is not included under the Unemployment Insurance Scheme, nor is it included in any projected legislation in regard to limitation of working hours. It makes a distinct claim for separate treatment in this connexion". They go on to urge that "in regard to agricultural workers there should be a reduction all round in the contributions payable." The National Council of Agriculture for England state (App. LXXXV, 5; Q. 21196-21217) that the agricultural worker on the average receives a low rate of wages, and is probably content to receive a low wage partly because his occupation is a healthy one. They contend that persons in more arduous and more hazardous occupations receive higher rates of wages and should "with that high wage pay more for their Health Insurance than the agricultural worker."

254. Another justification for differentiation in benefits lies in the incentive which is thereby offered to good and careful administration. We think that it would be fatal both administratively and financially if the persons charged with the responsibility for considering claims for benefit felt that there was nothing to be gained by doing their work well and thoroughly.

#### SCHEME TO MITIGATE INEQUALITIES OF BENEFIT.

255. While we cannot support the proposal for differential contributions, we have come to the conclusion that the possibility of the existence of differences in the rate of benefits provided by different Societies should continue to be a feature of the scheme of National Health Insurance. We believe, moreover, that the inequalities which have in fact been disclosed are only such as could have been and were foreseen in 1911 by those whose technical knowledge and experience enabled them to gauge the probabilities. It is true that as a result of the War the actual



surpluses are larger and the additional benefits greater and more widely distributed than could have been anticipated: in addition the whole picture is drawn on a larger scale as the result of the increase in rates of contribution and benefit which were made after the War in view of the change in money values. What we are concerned with, however, in this connexion is the degree of divergence from the average that is shown by particular Societies, and this is quite unaffected by the circumstances mentioned. Indeed such changes as have come about since the scheme was originally framed have operated to reduce the relative inequalities. We refer in particular to the establishment of the Contingencies Fund and the Central Fund, the purpose of which was to protect the Societies in deficiency from suffering either reduction of benefits or increase of contributions. We have emphasised these considerations because the demand for some measure of pooling of surpluses is often founded—as we have shown, erroneously—upon the theory that experience has in this respect falsified the expectations entertained by the authors of the Scheme and held out by them to the public at its inception. Although, however, this theory is shown to be untenable there remains in our opinion matter for serious consideration in the large gulf which now divides the most prosperous from the least prosperous Societies as respects the standard of benefits which they are in a position to provide for their members. We have shown that on a cold analysis the inequalities that exist can be justified. But in this matter, if we may apply a much quoted judicial aphorism, it is not sufficient that justice should in fact be done; it is equally important that the public should realise that it is being done; and we are satisfied that on grounds of broad policy it is desirable that some concession should be made to the feeling, which we believe to be widely entertained, that in a universal compulsory scheme of insurance to which a substantial contribution is made from the general resources of the State some element of mutual aid should be included, by which the more fortunate sections of the insured community will be enabled to contribute out of their abundance towards the needs of those less happily placed. These considerations, taken by themselves, would incline us to view with favour the introduction of a measure of partial equalisation of benefits so limited in its operation as to preserve the incentives to sound and economical administration on which we have laid stress above, but at the same time going considerably beyond the restricted scheme of pooling which was introduced, so far as Societies actually in deficiency are concerned, by the establishment of the Central Fund; and we find that they are powerfully reinforced by the further consideration that such a measure would set free additional resources that could be applied in the provision of extended benefits which are greatly needed and which, to be effective, should be provided for the whole insured community. We accordingly adopt the principle that the surpluses

of Approved Societies should in part be pooled, and we proceed to detailed proposals for giving effect to our recommendation.

256. We consider that the surplus funds which have accrued to any Society at the date when the changes which we recommend are brought into operation, together with any future interest accruing on those funds, should remain the absolute property of the Society and that the proposals for the mitigation of inequality which we put forward should be limited to surplus earned after the change of system. This would mean in practice that at each valuation after the third, the surplus carried forward from the previous valuation (including the Contingencies Fund) with its interest earnings would be exempt from the operation of the scheme we suggest. The balance of surplus would be the amount actually earned in the quinquennium, and this is the sum which we propose to treat as subject to pooling. It is difficult to make any precise estimate of its aggregate amount, since this depends partly on facts which will not be available until the second valuation is completed, and partly on the fluctuations in the claims from period to period in the future. We are advised, however, that for the purposes of examination of our proposals a sum of about £2,000,000 a year may be assumed.

257. The proportion of this surplus which should be brought into the pool would clearly have to be substantial, since otherwise the pooling scheme would be ineffective. On the other hand the proportion left with the Societies would also have to be substantial if the incentive to good administration is not to be weakened. Our conclusion, therefore, is that the proportion should be one-half, a proportion which could also be defended on the ground that one-half of the contributions out of which the surplus arises is paid not by the members themselves but by their employers. The pooling of one-half of the surplus acquired would have the same effect broadly as if the employers' contributions were carried to a central fund and one-half of all the benefits and other charges paid thereout—a plan which might with some measure of justification have been adopted from the beginning.

258. We recommend that the amount paid into the pool should be distributed among all Societies at a flat rate per head of membership. We think that this would be the only satisfactory method of distribution, since if the money were used simply to subsidise the weaker Societies, it might have the effect of raising some of them to a better position than that of some of the Societies contributing to the pool.

259. One consideration which has weighed much with us in arriving at our decision is that after the application of the small margin in the present weekly contribution, to which reference is made in Chapter VII of our Report, there is no means, apart

from an increase of contribution or of the Exchequer grant (neither of which changes, as we have previously stated, can in our opinion be contemplated as possible in the near future), by which any general extension of the present statutory benefits can be provided for all insured persons. In Chapter X we recommend that the scope of the present medical benefit should be extended to include a specialist and consultant service, and we are satisfied that under the pooling scheme suggested above it would be possible to introduce this extension at once. When it is recognised that one effect of the partial scheme of pooling which we recommend will be to enable this important extension of the benefits of National Health Insurance to be provided at once for all insured persons, much of the opposition which might otherwise have been aroused against our proposal will, we trust, be allayed.

## CHAPTER X.

### PROPOSALS FOR EXTENDING MEDICAL BENEFIT.

260. In Chapter V of our Report we have described in general terms the changes in the medical aspects of National Health Insurance which we regard as ultimately desirable; and on the other hand we have indicated in Chapter VI the reasons which in our opinion make wide and costly amendment undesirable and indeed impracticable in the near future. In this and the following chapters we propose to deal with various matters which we consider are of immediate practical importance, the attainment of which is, moreover, within the financial bounds which we have regarded as prescribed for us by the general circumstances of the time. It would in our opinion be regrettable if, for reasons of financial stringency, we could propose nothing beyond a series of minor amendments. But in fact we are able—without suggesting any increase in the contribution or the Exchequer grants—to propose several fundamental changes which we think will be beneficial to the insured population at large, and in addition a considerable number of amendments, not individually of great importance, but in their cumulative effect conducive to a real improvement in the general working of the scheme. Questions relating to Approved Societies have already been considered in Chapters VIII and IX. With certain larger matters apart from these we deal in this and the next two chapters. A large number of other questions of varying degrees of importance, the consideration of which has been forced on us by the evidence or by our general review of the Scheme, are dealt with in Chapter XIII.

261. The first of the questions to which we now turn is that of the extension of the scope of medical benefit. In Chapter V we have indicated the nature of the evidence directed to this question, evidence which leaves in our mind no doubt that this extension should come first in any order of priority of proposals and that such an expansion should be made if or as soon as the necessary financial resources are available. It is unnecessary to traverse the ground again, but we may refer to two answers of Mr. Brock's which sum up the official attitude: "It has always been recognised that medical benefit could not continue indefinitely to be limited only to a general practitioner service." (*Brock*, Q. 23,830.) "In 1914 provision was made in the Budget and the money was voted by Parliament for the provision of specialist services, but that fell through on account of the War." (*Brock*, Q. 23,835.) Medical benefit is at present a general practitioner service; but it cannot seriously be claimed that this is a satisfactory state of affairs. It means that the medical service