

NATIONAL HEALTH INSURANCE

Report by the Government Actuary on the Fourth Valuation of the Assets and Liabilities of Approved Societies

GOVERNMENT ACTUARY'S DEPARTMENT,
London, S.W.1.

23rd April, 1937.

The Rt. Hon. Sir KINGSLEY WOOD, M.P.,
Chairman,

National Health Insurance Joint Committee.

SIR,

1. I have the honour to submit my report upon the fourth valuation of the assets and liabilities of the approved societies as carried out by the valuers appointed by the Treasury under Section 74 of the National Health Insurance Act, 1924.

THE VALUATION DATES.

2. Under this Section of the National Health Insurance Act the assets and liabilities arising under the Act of each approved society or branch of a society are required to be actuarially valued at the expiration of every five years, or at such other times as may be appointed. It is essential, in the interests of economy and of administrative convenience in dealing with the large numbers of schemes of additional benefits submitted for approval, that the heavy work of valuing some 7,000 approved societies and branches should be, as far as possible, continuous. This necessitates the division of the societies into a number of groups with separate valuation dates. On the present occasion the valuation has been made in four groups with valuation dates respectively of 31st December, 1931, 1932, 1933, and 1934. These groups, comprising in all 6,955 valuation "units", were constituted as follows:—

Valuation Date			Date of previous valuation
31st December.			31st December.
1931	Ancient Order of Foresters ...	2,049 branches	1927
	Societies in Great Britain (part)...	845 societies	1927
1932	Societies with branches (other than the Ancient Order of Foresters and Manchester Unity) ...	767 branches	1928
	Societies in Great Britain (remainder) and in Northern Ireland ...	140 societies	1928
1933	Independent Order of Odd Fellows Manchester Unity (part) ...	1,245 branches	1928
1934	Independent Order of Odd Fellows Manchester Unity (remainder)	1,909 branches	1929

A society without registered branches, or a separately registered branch of a society, constitutes a unit for valuation purposes; further, a society or branch with separate funds for men and for women comprises two units and has been treated as such in all the statistics given in this report.

It may be added that arrangements have been made to take the fifth valuation in five groups, the date for the first group being 31st December, 1935.

THE MEMBERSHIP OF APPROVED SOCIETIES.

3. The total number of "units" valued, viz., 6,955, shows a net decrease of 653 from the corresponding number at the third valuation, viz., 7,608. The decline is due to the following changes which have occurred since the last valuation:—

(i) In 391 cases the engagements of a society or branch have been transferred to another (and generally a larger) unit.

(ii) Four societies, which at the third valuation had between them 332 branches, have centralised their administration. In three instances the societies have set up separate funds for their men and women members respectively; further, in one of these cases the society has been re-approved as three separate societies operating in England, Scotland and Northern Ireland respectively. Thus the effective reduction in the number of units is 321.

(iii) Four new societies and one new branch have commenced to transact business.

(iv) In 54 other cases the number of units has been increased by the separation of funds as between the men and the women members.

4. The total number of members covered by the fourth valuation was 16,953,146, the division of this number according to the valuation dates being as follows:—

as at 31st December, 1931,	669,687
" " " 1932,	3,383,792
" " " 1933,	12,374,581
" " " 1934,	525,086

The numbers do not include insured persons aged 65 and over. These persons have ceased to contribute and to be entitled to sickness and disablement benefits, and the liability of their societies in respect of the cost of medical benefit, to which they are entitled during life, has been liquidated by an appropriate capital payment to a departmental fund. The estimated number of such persons on 31st December, 1933, was 1,190,000.

5. Table I, which follows, shows the geographical distribution of the societies and branches included in the valuation, with the related numbers of members. Societies with centralised funds

which operate in more than one country are assigned, in this classification, to the countries in which their head offices are situated.

TABLE I.

Distribution of Membership by Country of Office (Head or Branch).

Country.	Number of Valuations (Societies and Branches).	Number of Members at the Date of Valuation.		
		Men.	Women.	Total.
England	6,146	9,755,360	4,975,796	14,731,156
Scotland	426	1,077,686	579,776	1,657,462
Wales	353	307,445	63,835	371,280
Northern Ireland	30	119,604	73,644	193,248
Total	6,955	11,260,095	5,693,051	16,953,146

6. Exact statistics are not available as to the number of insured persons resident in any particular country who are included, in Table I, in the membership of societies domiciled in other countries. The insured populations in Wales and Northern Ireland are, however, much greater than this table would suggest, and in order that a more accurate view of the local distribution of the insured may be obtained a rearrangement of the figures with reference to this point is necessary. In the main the valuation registers give particulars of persons who were resident in each country at the time of their entry into insurance, without adjustment for cases of subsequent migration; their aggregation gives the following table:—

TABLE II.

National Distribution of Insured Population.

Country.	Men.	Women.	Total.
England	9,234,075	4,770,868	14,004,943
Scotland	1,143,686	587,829	1,731,515
Wales	674,449	194,148	868,597
Northern Ireland	207,885	140,206	348,091
Total	11,260,095	5,693,051	16,953,146

It is clear, however, that the statistics compiled from the valuation registers tend to become less reliable, with time, as an index to the resident populations in the respective countries. The trend of industry, the transference of persons from the distressed areas,

and the greater facilities for employment in England, especially in the case of women, are all factors which must lead to the transfer of an appreciable proportion of the insured population to England from the other three countries. In the absence of full records of transfers from one country to another, where a change of society is not involved, it is impossible to assess the magnitude of these changes. There can be little doubt, however, that in the case of Scotland, and still more in the case of Wales, the figures given in Table II include a number of persons who ought to be allocated to the English insured population.

In view of the changes in the areal distribution of population which have occurred in recent years, it appears to me desirable that steps should now be taken to ascertain what adjustments to the valuation statistics are necessary to secure a substantially accurate division of the insured population between the respective countries of residence and to arrange that, in future, records are maintained of movement from one country to another.

7. The changes of membership which have taken place in the period between the valuations are shown in the following table:—

TABLE III.

Summary of Membership Changes between Third and Fourth Valuations.

	Men.	Women.	Total.
Number of members at third valuation	10,815,576	5,563,664	16,379,240
Add—			
Entrants	2,178,978	2,323,637	4,502,615
Transfers in*	412,559	214,478	627,037
A.	13,407,113	8,101,779	21,508,892
Deduct—			
Deaths	393,402	103,723	497,125
Transfers out*	232,131	146,904	379,035
Insurances ceased	1,037,443	1,249,311	2,286,754
Temporary Insurances expired (Class K; Married Women)	—	784,325	784,325
Attained age 65	484,042	124,465	608,507
B.	2,147,018	2,408,728	4,555,746
A—B, being number of members at fourth valuation	11,260,095	5,693,051	16,953,146

* Transfers in include transfers from the Deposit Contributors Fund and the Navy, Army and Air Force Insurance Fund as well as transfers from other societies; transfers out include the relatively unimportant item of transfers to the Deposit Contributors Fund.

8. The changes in total membership between the third and fourth valuations are as follows:—

	Men.	Spinsters and Widows	Married Women.		All Women.
			Ordinary	Class K	
Third Valuation ...	10,815,576	4,294,957	1,132,363	136,344	5,563,664
Fourth Valuation ...	11,260,095	4,395,867	1,127,782	169,402	5,693,051
Increase ...	444,519	100,910	(—) 4,581	33,058	129,387

These figures represent an increase of 4.1 per cent. in the number of insured men and 2.3 per cent. in the number of insured women. The increases compare reasonably well with the increases for the corresponding periods in the total populations between ages 16 and 65. They are, however, affected by certain special factors. On the one hand the insured population has been augmented by a substantial number of persons in excepted employment who became voluntary contributors under the Contributory Pensions Act of 1929; this, it is estimated, accounts for approximately 60,000 men and 10,000 unmarried women. In addition the increased popularity of voluntary insurance has led to the retention in insurance of many employed persons who would otherwise have ceased to be insured on reaching the remuneration limit.

On the other hand, the number of insured persons included in the valuation registers of those societies which were valued at 31st December, 1933 and 1934, was depleted by the termination (under Section 3 (5A) of the National Health Insurance Act of 1924) of insurance for health insurance benefits of some 97,000 men and 12,000 women who had suffered from prolonged unemployment. These numbers do not represent the total of insured persons whose health insurance benefits were affected by the provisions of Section 3 (5A), since the corresponding exits in the case of units valued at 31st December, 1931 and 1932—numbering about 25,000 persons in all—did not come within the period under review.* In considering the position of persons whose insurance was terminated under Section 3 (5A) it should be borne in mind that a large proportion of such persons have since returned to insurance on resuming employment or have been reinstated for maternity and medical benefits under the Act of 1935.

Further, the number of transfers out in the case of women was abnormally large owing to the transfer of some 40,000 women (probably to a predominating extent married women and widows) from approved societies to the Deposit Contributors Fund due to their membership being terminated by their societies on the ground of the intermittent and casual nature of their employment, their contribution payments having fallen below the prescribed minimum. This clearance covered cases which had accumulated over a number of years, as societies do not appear to have exercised their rights in this respect to any extent until 1932, their action

* There were, in addition, similar exits after the valuation dates until December, 1935, after which the amending Act of that year came into operation.

being probably not unrelated to the administrative action regarding the benefits of married women in unemployment insurance which followed on the passing of the Anomalies Regulations in October, 1931. For these reasons this feature is not likely to recur to a substantial extent in subsequent years.

A comparison of the changes shown in Table III with those for the preceding inter-valuation period indicates a substantial fall—amounting to 16 per cent. in the case of men and 13 per cent. in the case of women—in the number of persons entering insurance. This is due in part to a small reduction, on average, in the interval between successive valuations; further, there were in the earlier period (as an immediate consequence of the Contributory Pensions Act of 1925) more voluntary contributor entrants than in the later. Mainly, however, this feature is a reflection of the decline in the numbers reaching age 16, due to the lower level of births during the late war, as compared with the average for the preceding years.

9. The following table shows the net movement in membership in each of the groups into which the approved societies are divided for the administrative purposes of the Insurance Departments:—

TABLE IV.
Classification of Membership by Type of Society.

Group.	Number of Members at the		Increase.	Percentage Increase.
	Third Valuation.	Fourth Valuation.		
<i>Men.</i>				
(1) Friendly Societies with branches ...	2,226,247	2,236,164	9,917	·4
(2) Friendly Societies without branches ...	2,910,881	3,125,029	214,148	7·4
(3) Industrial Assurance and Collecting Societies ...	4,377,865	4,641,729	263,864	6·0
(4) Trades Unions ...	1,219,685	1,177,042	—42,643*	—3·5*
(5) Employers' Provident Funds	80,898	80,131	—767*	—·9*
Total ...	10,815,576	11,260,095	444,519	4·1
<i>Women.†</i>				
(1) Friendly Societies with branches ...	706,615	735,546	28,931	4·1
(2) Friendly Societies without branches ...	1,263,610	1,437,980	174,370	13·8
(3) Industrial Assurance and Collecting Societies ...	3,304,791	3,224,900	—79,891*	—2·4*
(4) Trades Unions ...	257,103	261,391	4,288	1·7
(5) Employers' Provident Funds	31,545	33,234	1,689	5·4
Total ...	5,563,664	5,693,051	129,387	2·3

† Inclusive of Class K.

* Decrease.

Notes.—(i) In Group (1) the average period between the third and fourth valuations was about 4·3 years; in the other groups the period was 5 years in all cases.

(ii) A few large societies with branches became centralised friendly societies in the inter-valuation period and are included throughout in Group (2).

For the most part the increases in membership in the various groups of society maintain the relative position exhibited in previous valuation statistics. Thus, in the case of men, the bulk of the increase in membership has occurred in friendly societies without branches, and industrial assurance and collecting societies. But it is perhaps worthy of note that the small group of employers' provident funds which in the preceding inter-valuation period increased its membership by 10 per cent. has, on this occasion, decreased slightly in numbers.

As regards women, the position is rather different. The friendly societies, particularly those without branches, have taken very much more than their proportionate share of new members, and the industrial assurance and collecting societies, which had previously increased in membership at a substantial rate have, on this occasion, to record a small reduction in numbers.

10. The variations in the net increase of membership as between societies of different types are so wide that it is worth considering the membership movement in each group a little further. Accordingly, the table which follows (Table V) has been prepared. This statement analyses the increase under (a) additions, which comprise entrants and the balance of the transfers in (including transfers from Deposit Contributors Fund) over transfers out and (b) deductions, subdivided under death, cessation of insurance, attainment of age 65 and (in the case of women) temporary insurance expired (Class K). It should be particularly noted that in this table the movement under each head is expressed as an average *annual* rate per *thousand* members of the particular group during the inter-valuation period.

11. The figures in Table V confirm and amplify the conclusions to be drawn from Table IV. As regards men, the most striking feature is the relative extent of recruitment of new members as between centralised friendly societies and industrial assurance societies on the one hand, and friendly societies with branches and trade union societies on the other. The variations in this respect are rather less apparent in the case of women, as regards whom Group (2) (Friendly Societies without branches) is outstanding.

On the deductions side, the differences of age constitution in the several groups, and as between men and women, account largely for the variations to be observed in the proportionate number of deaths and of members attaining age 65. In the case of deductions due to cessation of insurable employment, there are very wide differences of rate as between one group and another. These may be ascribed in part to age differences as well as to variations in occupational characteristics, but even so the very high rates of lapse in certain groups, e.g. the industrial assurance societies, remain a somewhat perplexing feature meriting investigation.

TABLE V.
Annual Membership Movement per Thousand Members by Type of Society.

Group.	Additions (i.e., entrants and net transfers).	Deductions.					Average net increase [(i)-(vi)].
		Deaths. (ii)	Insurances ceased. (iii)	Attained age 65. (iv)	Temporary insurances expired (Class K: Married Women). (v)	Total [(ii)+(iii)+ (iv)+(v)]. (vi)	
<i>Men.</i>							
(1) Friendly Societies with branches	31	7	11	12	30	1	
(2) Friendly Societies without branches	50	7	19	9	35	15	
(3) Industrial Assurance and Collecting Societies	49	7	24	7	38	11	
(4) Trades Unions	31	10	16	12	38	7*	
(5) Employers' Provident Funds	31	8	13	12	33	2*	
All Groups	43	7	19	9	35	8	
<i>Women.</i>							
(1) Friendly Societies with branches	83	4	35	4	74	9	
(2) Friendly Societies without branches	100	4	40	5	75	25	
(3) Industrial Assurance and Collecting Societies	83	4	50	4	88	5*	
(4) Trades Unions	77	5	46	4	74	3	
(5) Employers' Provident Funds	73	3	22	2	62	11	
All Groups	85	4	44	4	80	5	

* Decrease.

In view of its interest in this connection, a comparison is given below of the age distributions of the memberships of the several groups as at 31st December, 1931, indicating the striking differences in age composition :—

TABLE VI.

Age Distribution per Thousand Members by Type of Society.

Ages.	Group 1.	Group 2.	Group 3.	Group 4.	Group 5.	All Groups.
<i>Men :—</i>						
16-25... ..	224	270	317	160	195	268
25-35... ..	235	236	297	202	208	257
35-45... ..	208	194	168	222	207	190
45-55... ..	185	174	127	241	220	164
55-65... ..	148	126	91	175	170	121
	1,000	1,000	1,000	1,000	1,000	1,000
<i>Women :—</i>						
16-25... ..	441	464	462	386	520	457
25-35... ..	246	222	256	254	261	246
35-45... ..	149	143	131	179	120	138
45-55... ..	100	105	92	119	66	98
55-65... ..	64	66	59	62	33	61
	1,000	1,000	1,000	1,000	1,000	1,000

THE FUNDS OF APPROVED SOCIETIES.

12. The sums to the credit of societies at the valuation dates amounted to £164,363,000. Of this amount £47,774,000 represented the outstanding part of the book credits of reserve values, which are in course of redemption; the balance, £116,589,000, consisted of the funds actually accumulated out of the contributions of the insured and their employers with the interest earned by their investment. The total assets are summarised in the following statement :—

TABLE VII.

Funds of Approved Societies at the Valuation Dates.

	£
Reserve Values	47,774,000
Investment Account (Departmental)	55,095,000
Current Account (Departmental)	1,199,000
Societies' Investments—	
Mortgages and Loans	6,692,000
British Government Securities*	43,435,000
British Local Authorities' Securities	2,636,000
Other Investments	4,991,000
Cash in hand, accrued interest, and other assets	2,541,000
Total	£164,363,000

* Including Dominion, Indian and Colonial Government Securities.

These assets were held in respect of the following accounts :—

	£
Benefit Funds	155,654,000
Contingencies Funds	3,254,000
Balances of Administration and Additional Benefit Accounts and other liabilities	5,455,000
Total	£164,363,000

13. At the third valuation the total funds of approved societies amounted to £167,145,000, of which £49,636,000 were represented by reserve values. Thus, between the third and the fourth valuations the funds of societies declined by £2,782,000, the fall being made up of a reduction of £1,862,000 in reserve values and of £920,000 in cash assets (that is, from £117,509,000 to £116,589,000). The figure shown for the reduction of reserve values represents, of course, the net effect of redemptions of reserve values and of creations of new reserve values. An abnormal increase in the latter item for the year 1930, as a result of the admission of voluntary contributors under the terms of the Act of 1929 (see paragraph 8), has operated to delay the due redemption of outstanding reserve values.

In regard to the foregoing, it is perhaps desirable to point out that increase or otherwise in funds over a series of years does not, in itself, provide an indication of the strength of an insurance institution; it is the function of the valuation to supply this. The small decline in the total funds of approved societies in the inter-valuation period is not, therefore, to be interpreted as a sign of deterioration in their financial position. This matter is discussed further in later sections of this report but it is appropriate at this stage to point out that the growth of societies' funds has been substantially and properly retarded as a result of the expenditure on additional benefits of at least £20,000,000 by societies during the inter-valuation period.

THE VALUATION BASIS.

14. As stated in previous reports, the valuation of the liabilities of approved societies is conducted on the principle of a common basis for all societies and branches in the case of each sex, without regard to the divergences from the standard experience which arise in particular cases. The rate of contribution is uniform, for persons of each sex, throughout the whole system, and on the basis of