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.
Men :—						
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
Women :—						
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

computation adopted the major part of it, which is payable to the benefit funds, is equal in value at the age of 16 to the future benefits and cost of administration chargeable against these funds. A common standard of valuation must accordingly be employed, a conclusion which is emphasised by the provisions of the Act relating to the grant of reserve values and transfer values and to the redemption of deficiencies.

It is a necessary consequence that the results of the valuations reflect the divergences of past experience from the standard without anticipating those of the future. The position in regard to this subject is fully explained in a report of the Actuarial Advisory Committee, dated 28th January, 1915, which was published as Appendix B to Sir Alfred Watson's Report on the First Valuation of Approved Societies. (Cmd. 1662.)

15. On the present occasion the valuations have been made on the basis prescribed by the National Health Insurance (Valuation) Regulations, 1933. Under these regulations the future claims for sickness and disablement benefits are estimated, in the case of men, to be in close accordance with the rates of sickness shown by the Manchester Unity Experience, 1893-97; this involves no change from the rates employed in the third valuation. In the case of women, however, the actuarial basis was revised in connection with the National Health Insurance and Contributory Pensions Act, 1932, and the rates of sickness then adopted have been used for the present valuations. The new basis was provided by the experience in the three years 1928-30 of a group of societies, so selected as to be typical of the whole. For reasons explained in the next paragraph, rates of sickness were determined, for unmarried and married women respectively, which were financially equivalent, in the aggregate, to 90 per cent. of the rates exhibited by that experience. Further, the assumed proportion of women who remain in employment after marriage was increased from one-seventh to one-fifth.

The liability in respect of maternity benefit under men's insurances was estimated on the same basis as for the third valuation. In the case of women's insurances—as part of the general revision of the basis—allowance was made for a reduction of 15 per cent. from the previous valuation provision in the light of their current experience.

As in the case of the third valuation, the probabilities of survivorship from year to year incorporated in the valuation basis were deduced from the mortality experience of the population of England and Wales in the years 1920-21, separate rates being employed for men and women respectively.

The future interest earnings of the funds were again assumed to be at the rate of 4 per cent. per annum.

16. The alterations in the provision for sickness, disablement and maternity claims in the case of women were made at the same time as the reduction, under the Act of 1932, in the rates of disablement benefit for unmarried women from 7s. 6d. to 6s. a week and in the rates of sickness and disablement benefits for married women from 12s. and 7s. 6d. to 10s. and 5s. a week respectively. In the case of unmarried women the new provision allows, on the average, for 15 per cent. more weeks of sickness benefit and 100 per cent. more weeks of disablement benefit than would result if the basis employed for men were used to assess the claims of this class: in the case of married women the corresponding additions to the provision are about 130 per cent. and 205 per cent. for sickness and disablement benefits respectively. Taking the combined benefits, the cost provided for is greater by approximately 35 per cent. in respect of unmarried women, and 150 per cent. in respect of married women, than it would have been if the rates of incapacity applicable to men had been employed.

In conjunction, the several modifications amounted to a financial reconstruction of women's insurance, so arranged as to preserve the principle that, on the basis of valuation adopted, the contribution credited to the benefit fund of a society should be equivalent in value to the related benefits and cost of administration in the case of an entrant into insurance at the age of 16. The financial effect of the changes was explained in the Report by the Government Actuary on the Financial Provisions of the National Health Insurance and Contributory Pensions Bill, 1932 (Cmd. 4073), from which it will be observed that the equivalence of benefits (at the rates fixed in the Bill) and contributions was only secured on the assumption that the rates of sickness would be maintained at a level 10 per cent. lower on average than that of the years 1928-30. These changes resulted in a small reduction of the reserves required in respect of insured women as from 1st January, 1933. The resulting gain to societies approximately counterbalanced the strain due to the lower provision for sickness and disablement benefits for that part of the inter-valuation period up to 31st December, 1932, when the new scale of benefits was brought into operation. This point is dealt with more fully in paragraph 44 below.

17. Some reference is necessary to the method of valuing Stock Exchange securities prescribed by the Valuation Regulations, 1933, which differs from that previously employed. At the third valuation Stock Exchange securities were taken at the market values (excluding accrued interest) appropriate at the dates of valuation. In the then existing circumstances this method not only secured consistency of treatment as between one society and another but also resulted in average yields on the assets of societies which were in satisfactory relation to the valuation rate of 4 per cent. During the period from December, 1931, to December, 1934—over which the

dates of the fourth valuation ranged—a very great change took place in market values. At the end of 1931, Stock Exchange securities stood at very low prices, but before the end of 1932 substantial rises had occurred which have since been maintained. In these circumstances the propriety of taking market values at a particular date of valuation would have been very questionable, since great inequalities would have occurred as between groups of societies valued at different dates. Moreover, in the case of some societies, which were due to be valued after the rise in security values, the figure placed upon their investments would have been so high as to give a yield below the valuation requirement of 4 per cent. per annum on all the funds of the society (including reserve values which carry no more than 3 per cent. interest). To obviate these difficulties it was provided that Stock Exchange investments held by or on behalf of societies should be valued at such an amount that the interest income would be equivalent to a yield of 4½ per cent., appropriate provision being made in the case of redeemable securities. The margin of ½ per cent. over the valuation rate was taken as a provision for the probable, though indeterminate, loss of interest income in respect of new investments and re-investments of redeemable securities.

The Valuation Results.

18. The result of the valuation of each approved society (or a combined total for each society with separately valued branches) is given in the Appendix. In total, surpluses were disclosed in the case of 6,435 societies and branches, comprising 15,473,186 members, the aggregate amount of surplus being £37,484,686 corresponding to an average of £2·42 per member. In 228 cases, with a membership of 812,208, the assets and liabilities were equal, after the application of grants, amounting to £250,670, from the Central Fund under Section 3 of the Act of 1926, the resources of the Reserve Suspense Fund being at present insufficient to meet its liabilities under this head. Deficiencies were found on the valuations of 292 societies and branches, with a membership of 667,752, the total amount of the deficiencies being £740,983 or, on average, £1·11 a member; corresponding grants from the Central Fund, totalling £695,991 were made in these cases. The total of the grants under Section 3 was thus £946,661.

It should be explained that the grants referred to above are made on a certificate from the Government Actuary under Section 3 (1) of the Act of 1926. These grants were originally prescribed to make good, in part or whole, any worsening in the financial position of a society (or branch) in consequence of the provisions of that Act where it appeared to the valuer that a deficiency (termed an "apprehended deficiency") would be disclosed on valuation. As a result of the Acts of 1932 and 1935 the scope

of such grants has been extended to cover also losses due to arrears of contributions after taking into account (i) the value of amounts recoverable by way of reduction of benefits, etc. (Section 7 (1) of the Act of 1932), and (ii) the effect of the provisions relating to the Unemployment Arrears Fund (Section 11 (6) of the Act of 1935). The first of these modifications commenced to operate as from July, 1932; the related relief thus accrued in respect of units valued in 1932 or later, and in respect of a part only of the inter-valuation period. The second began two years later and its effect so far as the present valuations are concerned is necessarily negligible. In each case where there is an apprehended deficiency the appropriate grant is credited to the society before the valuation is completed. Thus the valuation result—whether an equality of assets and liabilities, or a deficiency—denotes the position after bringing the grant into account, and this fact should be borne in mind in reading the present report.

19. The following is a summary of the valuation balance sheets of all societies and branches :—

Table VIII.

SUMMARY OF VALUATION BALANCE SHEETS.

Liabilities.		£	Assets.	£
Present Value of Benefits, and cost of Administration		550,905,913	Present Value of Contributions ...	340,500,696
	£		Present Value of State Grants ...	87,602,106
Surpluses ...	37,484,686		Total Benefit Funds...	157,495,239
less Deficiencies	740,983		Grants under Section 3 of the National Health Insurance Act, 1926	946,661
Net Surplus		36,743,703	Other Assets	1,104,914
		£587,649,616		£587,649,616

Note.—The amount of the total benefit funds in the above table includes the net amount of appreciation in the value of securities due to the prescribed method of valuing investments, and is to that extent in excess of the figure given for this item in paragraph 12.

The aggregated Valuation Balance Sheet thus shows a total net surplus of assets over liabilities amounting to £36,743,703. The net surplus carried forward from the third valuation, inclusive