

## DISPOSABLE SURPLUS.

23. By Section 75 (1A) of the Act of 1924 it is provided that where a surplus is found on valuation the valuer shall certify as disposable only such part of it as in his opinion, having regard to the circumstances and prospects of the society or branch, may reasonably be expended within the period of the duration of the scheme of additional benefits following the valuation. The considerations which flow from this provision have governed the action of the valuers in determining, according to their professional judgment, what part of a surplus disclosed on the valuation of a society or branch may safely be distributed. In a relatively small number of cases it has been found necessary to reserve the greater part, sometimes indeed the whole, of a surplus, accumulated under favourable conditions in the past, in order to protect the funds against a probable excess of claims in the future. In most cases, however, it has been found possible to release for distribution a substantial part of the surplus disclosed on valuation. It should be added that in a large number of units (particularly among small societies and branches) the surplus remaining, after the reserve had been fixed at the minimum which prudential considerations would dictate, was sufficient to permit of an increase in the additional benefits granted after the third valuation. In such cases the statute was interpreted as requiring the valuer to pay due regard to the prejudicial effects which a subsequent reversion to a lower scale or range of benefits might produce. With this in mind the disposable surplus was limited, wherever necessary, to an amount which would enable the unit concerned to provide such increased additional benefits as it appeared likely to be able to maintain for at least ten years from the beginning of the scheme resulting from the surplus now certified to be disposable.

24. A disposable surplus has been certified in the case of 5,857 units with an aggregate surplus of £37,001,865, the total amount certified being £20,105,033, and the amount carried forward £16,896,832. The proportion of these surpluses which were declared disposable was thus 54 per cent. In the case of 578 units, with surpluses totalling £482,821, the circumstances were such that no part of the surplus could be certified as disposable. The following statement shows the numbers of insured persons entitled and not entitled, respectively, to participate in additional benefits as the result of the fourth valuation.

TABLE XII.

*Distribution of Membership according to Title to Additional Benefits.*

—	Men.	Women.	Total.
<i>Entitled to Additional Benefits.</i>			
Members of units with disposable surplus	9,913,059	4,820,562	14,733,621
<i>Not entitled to Additional Benefits.</i>			
Members of units—			
(a) with surplus, but not disposable ...	494,778	244,787	739,565
(b) with equal assets and liabilities ...	486,142	326,066	812,208
(c) in deficiency ... ..	366,116	301,636	667,752
Total ... ..	1,347,036	872,489	2,219,525
Full Total ... ..	11,260,095	5,693,051	16,953,146

The proportions of insured persons entitled to additional benefits are respectively 88 per cent. in the case of insured men and 85 per cent. in the case of insured women. The corresponding proportions at the third valuation were 88 per cent. (men) and 38 per cent. (women). These figures appear to indicate a great increase in the proportion of insured women who are entitled to additional benefits. This is due mainly to the inclusion of three large societies, the female membership of which did not have a disposable surplus at the previous valuation. In two of these cases, however, modified schemes of additional benefits had been in operation—financed from unspent balances in respect of their additional treatment benefit schemes following on the second valuation—and thus the increase in the number of women entitled to additional benefits is not as great as is suggested by the above percentages. It is largely as a result of this transference of membership that the average proportion of surplus certified as disposable (in disposable surplus cases) has fallen slightly from 58 per cent. (at the third valuation) to 54 per cent.

25. The position as regards insured persons who are members of societies in which disposable surplus has been certified, is exhibited in more detail in the following analysis. In this statement the number of persons concerned, the amount of the disposable surplus and the average per head at the fourth valuation are compared with the corresponding figures relating to the third valuation.

TABLE XIII.  
Comparison of Disposable Surpluses at Third and Fourth Valuations.

	At third valuation.			At fourth valuation.		
	Number of Members.	Amount of Disposable Surplus.	Average Disposable Surplus per Member.	Number of Members.	Amount of Disposable Surplus.	Average Disposable Surplus per Member.
Men insured alone	6,700,791	£ 11,263,828	£ 1.68	7,666,476	£ 11,691,212	£ 1.52
Women insured alone ...	1,089,007	1,144,395	1.05	4,015,745	2,633,373	.66
Men and Women in common insurance.	2,784,028*	7,403,043	1.95	2,246,583*	5,780,448	1.89
	1,014,318†			804,817†		
Total ...	11,588,144	19,811,266	1.71	14,733,621	20,105,033	1.36

\* Men.

† Women.

It will be observed that, of the increase of more than 3 millions in the number of persons in societies with disposable surpluses, about  $2\frac{3}{4}$  millions are women. Further, the increase is the net result of an increase of about 4 millions in the number insured in funds limited to one sex and a decrease of three-quarters of a million in those insured in common funds.

26. Table XIII shows that as regards societies insuring men alone, or men and women in common insurance, the average disposable surplus changed little from the third to the fourth valuation, and the membership in such societies (with a disposable surplus) increased slightly in total. In the case of societies insuring women alone, the average disposable surplus fell from £1.05 to £.66 concurrently with an increase of about 3 millions in the number of members in societies of this category. This feature is almost entirely due to the improvement in the position of the women's funds of the three large societies already referred to. These societies, with a female membership of about  $2\frac{1}{2}$  millions, possessed at the third valuation surpluses too small to justify the distribution of any part thereof, but at the fourth valuation they were restored to the participating group and, the amount of their disposable surplus being much smaller than the average for other societies in that group, the amount per head for the whole group was correspondingly depressed. If the societies in question were excluded from the figures given above, the average disposable surplus per head in respect of women insured alone would be £1.07 instead of £.66, that is to say, approximately the same as the average at the previous

valuation. Correspondingly, the average disposable surplus per head over-all would be £1.56 instead of £1.36, representing a much smaller decline from the previous figure of £1.71. Thus it may be said that as regards the great bulk of societies in possession of a disposable surplus, there has been, on average, little change in the inter-valuation period.

27. To assist societies and branches in framing their schemes for additional benefits, an appendix was attached to each valuation report showing how the disposable surplus could be applied, in part to increase the monetary benefits and in part to provide funds for expenditure on other forms of benefit. It is not possible in any simple statement to indicate the extent of the variations of additional benefits shown in these appendices, but the average position is exhibited in summary form in Table XIV (see page 30).

This table shows the results of a calculation of the average amounts of additional benefits which could be provided, taking together all societies and branches with disposable surpluses, on the assumption that one-half of the total sum disposable is applied to the increase of sickness, disablement and maternity benefits, and the other half to the provision of "treatment" benefits. A similar computation was made for the purpose of the report on the third valuations, the results being given in Table X of that report. That statement indicated roughly the same average figures for the first and third categories, those for the second category, comprising women insured alone, being rather more than one and a half times those of the present table. These statements, of course, merely express in another way the relationship of the disposable surpluses, as between the two dates and the several categories respectively, which has already been examined in paragraph 26.

28. It is important to bear in mind that the figures of average disposable surplus and additional benefits given above relate to the position as it existed at the date of valuation. They are, therefore, necessarily incomplete as an indication of the total amounts which became available for additional benefits under the new schemes which were due to begin two years subsequent to valuation, since, in assessing the amounts thus available, account is taken not only of the surpluses certified as disposable on valuation but also of the amounts remaining unspent at the termination of existing schemes of treatment benefits, which are set free for appropriation under the new schemes. As neither the amounts of the balances remaining unspent from schemes in force at the date of valuation, nor details of the new schemes adopted subsequent to the present valuation, can become available to my department for a considerable period after the date of the valuation, it is impossible—even if it were appropriate—in this report to survey the position in regard to the sums which actually became available for appropriation in the new schemes of additional benefits, or the actual benefits granted

TABLE XIV.  
Average Additional Benefits equivalent to Disposable Surplus.  
(assuming the amounts available to be equally divided between monetary and treatment benefits.)

	Number of Valuations (Societies and Branches).	Number of Members.	Additional Money Benefits.			Amount per Member per annum available for Treatment Benefit.
			Sickness (per week).	Disablement (per week).	Maternity.	
Men insured alone	2,431	7,666,476	s. d. 3 2	s. d. 1 7	s. d. 6 4	s. d. 4 3
Women insured alone	472	4,015,745	1 2	7	2 4	2 0
Men and Women in common insurance	2,954	2,246,583* 804,817†	3 7	1 9	7 2	5 6
Total	5,857	14,733,621	2 8	1 4	5 4	3 11

\* Men.

† Women.

under such schemes. The conclusions in the preceding paragraphs must, therefore, be read with this qualification in mind, and it must be remembered that the changes shown in disposable surpluses, as compared with those disclosed at the preceding valuation, will be followed by corresponding changes in the amounts available for additional benefits only if similar conditions in regard to the disbursement of monies appropriated for additional treatment benefits existed at and subsequent to the two valuations. There is no doubt that, for a variety of reasons, substantial balances in respect of schemes of treatment benefits will have remained unspent at the termination of the schemes in force at the dates of the fourth valuations. As a result, the position in regard to the maintenance of additional benefits under the new schemes may well be more favourable than might be inferred from a comparison of the amounts of disposable surplus.

As an indication of what has happened in the past in this respect it may be said that, at the termination of the schemes made after the second valuation, sums corresponding to over £2,800,000 (exclusive of State grant) remained unexpended out of the surplus allocated for treatment benefits. These balances then enured to the benefit funds and became available as additions to disposable surpluses at the third valuation. Exact statistics are not available as to the sums appropriated by societies after the second valuation for treatment benefits but I estimate broadly that rather more than £14,000,000 of surplus was allocated for this purpose. The savings thus represented about one-fifth of this sum. The corresponding position as regards schemes made after the third valuation is not yet known, since additional benefit schemes do not normally terminate until seven years after the date of the valuation to which they relate and even then the accounts cannot immediately be closed pending the settlement of outstanding claims. Judging, however, from the sums expended from the commencement of such schemes to the date of the fourth valuation, (i.e., generally, during the first 2½ years of their currency) it would appear reasonable to infer that many societies and branches, in framing their schemes of additional benefits consequent on the fourth valuation, were able to supplement the surpluses declared disposable by the valuers by substantial savings from the sums previously earmarked for treatment benefits.

29. Leaving out of account, however, as must necessarily be done, this important addition to the resources available for additional benefits the valuation results show that, from the disposable surpluses declared on the fourth valuation, no less than 14¼ million insured persons, out of a total insured population of about 17 millions, could be provided with additions to the statutory benefits, amounting on the average to an increase of about 20 per cent. in the normal rates of sickness and disablement benefits (with a somewhat smaller percentage addition to maternity benefit)

for the period of five years\* covered by the new schemes, together with treatment benefits costing, on average, about 4s. per member per annum.

30. As explained in paragraph 28, it is not possible in this report to discuss fully the position in regard to the new schemes of additional benefits or to examine the changes in such schemes. It would, however, seem desirable that a comprehensive statistical review of this subject should be undertaken in due course when complete data in respect of the new schemes adopted as a result of the present valuations have become available.

#### SOCIETIES WITHOUT DISPOSABLE SURPLUS.

31. In the preceding section the position of societies with a disposable surplus has been discussed generally, and from this it appears that as regards the 14 $\frac{3}{4}$  million persons insured in such societies there has been little change on the whole in the prospect of additional benefits, or in the financial position generally as measured by the average disposable surplus per member. Owing, however, to the large number of units involved and the complexity of analysis, it has not been possible to examine in detail the manner in which individual societies in this group have progressed from the third to the fourth valuation. There remains the much smaller group of persons, amounting to rather less than 2 $\frac{1}{4}$  millions, insured in societies in respect of which a disposable surplus was not disclosed by the fourth valuation. These, as will be seen from the figures in Table XII above, fall into three roughly equal groups, namely 740,000 persons in units with a surplus (but not a disposable surplus), 812,000 in units in which assets and liabilities were equal and 668,000 in units which were found to be in deficiency. The last two groups comprise all units in which, in the first instance, it appeared to the valuer that a deficiency would be disclosed. As explained in paragraph 18, the valuation results in such cases represent the position after the credit of any grant due to the unit under a certificate given by the Government Actuary in pursuance of Section 3 (1) of the Act of 1926.

These three groups, though fortunately relatively small, are of particular interest because the financial progress, favourable or otherwise, of the societies and branches which they comprise affords a test of the extent to which the financial provisions of the scheme are effective in sustaining those units which, owing to the occupational conditions of their members or for other reasons, administer the benefits of the Act in such circumstances as make it unlikely that they will ever be able to accumulate substantial surplus funds. For this reason the cases falling into the three groups have been further analysed with a view to comparing their present position with

\* Five years is the period of duration of additional benefit schemes in all cases except, transitionally, for certain branches.

that which they occupied at the previous valuation. It has not been possible to include in this investigation all the units concerned in view of the changes in constitution since the last valuation which have occurred in a few instances (e.g., centralisation of branch societies, or separation of funds as between men and women) but, as will be seen from the statistics which follow, the great bulk of the membership in all three groups has been dealt with in this analysis.

#### *Societies with Non-Disposable Surplus.*

32. Taking first those units which had a non-disposable surplus at the fourth valuation, Table XV (see page 34) shows, in respect of 681,000 out of the total of 740,000 in the group, the membership and surplus at the fourth valuation and the corresponding figures for the same societies and branches at the third valuation under four heads, namely:—

- (i) those units which had a disposable surplus at the third valuation;
- (ii) those which, as on the present occasion, had a non-disposable surplus;
- (iii) those with an equality of assets and liabilities;
- (iv) those which were in deficiency.

Units falling under the third and fourth of these heads may be taken to have improved during the inter-valuation period; societies in the first category to have definitely deteriorated; and those in the second to have experienced, on average, relatively little change in their financial position.

33. It will be seen that the units falling into this group experienced a small decline in membership, amounting to about 3 per cent., between the dates of the third and fourth valuations. Out of the total of about 681,000 members, only some 18,000 were in units whose position improved during the period, since at the previous valuation they were in deficiency or had an equality of assets and liabilities. Of the remainder the major part, comprising 369,000 persons, had a non-disposable surplus at the preceding valuation, but the reduction in its aggregate amount, as compared with the amount at the third valuation, indicates some deterioration in their position. Further, 285 units, with a membership of 294,000, were in a definitely less favourable position than before, since they passed from a surplus of £595,000 (of which the appropriate portion was disposable) to a non-disposable surplus of only £233,000. It is obviously of the first importance for societies in these last two categories to take all possible steps to arrest the process of deterioration—so far as it is within their control—before they fall below a level of equality of assets and liabilities and reach a state of insolvency.