

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.

TABLE XV.

Societies with Non-Disposable Surplus, classified according to position at Third Valuation.

Position at 3rd valuation.	No. of units.			3rd valuation membership.			3rd valuation surplus or deficiency. £	4th valuation membership.			4th valuation surplus. £
	Societies.	Branches.	Total.	Men.	Women.	Total.		Men.	Women.	Total.	
Disposable surplus ...	43	242	285	256,323	42,017	298,340	594,588	44,262	293,913	232,950	
Non-disposable surplus	23	201	224	232,422	154,464	386,886	274,553	147,726	368,843	203,798	
Equality ...	—	23	23	10,136	1,861	11,997	—	1,807	11,752	3,477	
Deficiency ...	—	27	27	1,904	4,884	6,788	5,196 (deficiency)	4,754	6,511	2,461	
Total ...	66	493	559	500,785	203,226	704,011	869,141 (surplus) 5,196 (deficiency)	198,549	681,019	442,686	

NOTE.—This statement omits 19 units, with a membership of 58,546, which cannot be classified according to position at third valuation (see para. 31).

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TABLE XVI.

Societies with Equality of Assets and Liabilities, classified according to position at Third Valuation.

Position at 3rd valuation.	No. of units.			3rd valuation membership.			3rd valuation surplus or deficiency. £	4th valuation membership.			4th valuation surplus or deficiency. £
	Societies.	Branches.	Total.	Men.	Women.	Total.		Men.	Women.	Total.	
Disposable surplus ...	6	24	30	5,964	5,236	11,190	19,237	5,959	5,433	11,392	
Non-disposable surplus	10	82	92	249,142	52,568	301,710	66,966	246,536	50,862	297,398	
Equality ...	3	50	53	104,371	204,726	309,097	—	94,717	197,536	292,253	
Deficiency ...	6	42	48	78,303	33,699	112,002	29,310 (deficiency)	61,471	31,887	93,358	
Total ...	25	198	223	437,780	296,219	733,999	86,203 (surplus) 29,310 (deficiency)	408,683	285,718	694,401	

NOTE.—This statement omits 5 units, with a membership of 117,807, which cannot be classified according to position at third valuation (see para. 31).

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*Societies with Equality of Assets and Liabilities.*

34. Table XVI (see page 35) analyses the position similarly in the case of units in which the assets at the valuation date, after being augmented by grants under Section 3 of the Act of 1926, were equal to the liabilities. It will be seen that in this group the decline in membership since the preceding valuation amounted to about  $5\frac{1}{2}$  per cent., and that it was most evident in those units which had disclosed a deficiency at the third valuation. As in the case of the non-disposable surplus group, those units containing the bulk of the membership concerned showed either no change, as measured by the status of equality, or a deterioration from the last valuation. Improvement occurred only in the 48 units, with a membership of 93,000, which had a deficiency—though small in the aggregate—at the previous valuation. In 53 units comprising 292,000 members the result of the valuation on each occasion was an exact balance of assets and liabilities, solvency having been restored by a grant under Section 3. In the remaining 122 units, with 309,000 members, surpluses amounting to £86,000 at the third valuation have been exhausted during the period and, in addition, grants under Section 3 have been necessary to maintain solvency.

*Societies in Deficiency.*

35. The units in respect of which a deficiency was disclosed at the present valuation demand more detailed consideration than the preceding categories. An analysis on similar lines brings out the results shown in Table XVII (see page 38). Only 25,000 persons out of the total membership of 668,000 in units which showed a deficiency have, for the reasons given in paragraph 31, been omitted from this table, which may therefore be taken as very closely representative of the position as regards this class. It will be seen that there was a decline of no less than 15 per cent. in the membership of these societies and branches in the inter-valuation period, and that this decline occurred mainly in those societies which were in deficiency at the third valuation.

It is encouraging to observe that in the case of 99 units, with a membership of 248,000, the amount of the deficiency is smaller than that disclosed at the previous valuation, the aggregate deficiencies amounting to about £297,000 on the present occasion, as against £564,000 five years before. For these societies and branches, the fresh deficiencies which have accrued in the present inter-valuation period are thus little more than one-half of the corresponding deficiencies which had to be made good after the preceding valuation. In the case of the remaining units, comprising 203,000 persons, which were in deficiency at both valuations there has been a deterioration in the position, the aggregate deficiencies on the present occasion amounting to £310,000 as against £136,000 at the previous valuation.

In this connection it should be borne in mind that upon a deficiency being disclosed at valuation it is extinguished forthwith by application of contingencies fund monies and, where these do not suffice, by a grant from the Central Fund or by other means. It follows, therefore, that where a deficiency disclosed at one valuation is followed by another at the next investigation, the new deficiency is the balance of losses, in excess of gains, accruing during the interval between the two valuations. Where, however, a deficiency follows a surplus (the whole or part of which was carried forward) the losses accruing during the period are met to a varying extent by the surplus reserved (including contingencies fund additions), and the deficiency disclosed at the valuation is correspondingly smaller.

The remaining societies and branches included in the table are those which were not in deficiency at the third valuation. Out of an aggregate membership of about 191,000, there were 73,000 persons in units which had an exact equality of assets and liabilities at the third valuation. For these the aggregate deficiency at the fourth valuation was nearly £26,000. The balance of this group consists of societies with surpluses at the third valuation, practically the whole of which had been carried forward as a reserve for contingencies. These surpluses, amounting to about £32,000 in the aggregate, have been replaced by deficiencies approaching £100,000.

TABLE XVII.

Societies in Deficiency, classified according to position at Third Valuation.

Position at 3rd valuation.	Number of units.			3rd valuation membership.			3rd valuation surplus or deficiency.	4th valuation membership.			4th valuation deficiency.
	Societies.	Branches.	Total.	Men.	Women.	Total.		Men.	Women.	Total.	
Disposable surplus ...	1	1	2	171	167	338	£ 618	162	150	312	£ 219
Non-disposable surplus	3	34	37	23,130	107,864	130,994	31,403	16,292	101,248	117,540	99,096
Equality ...	4	50	54	39,986	37,000	76,986	—	37,202	35,997	73,199	25,571
Deficiency :— Smaller than present	19	77	96	101,840	148,618	250,458	136,034 (deficiency)	83,468	119,757	203,225	310,141
Larger than present	13	86	99	277,095	23,360	300,455	564,036 (deficiency)	228,992	19,056	248,048	296,580
Total ...	40	248	288	442,222	317,009	759,231	32,021 (surplus) 700,070 (deficiency)	366,116	276,208	642,324	731,607

NOTE.—This statement omits 4 units, with a membership of 25,428, which cannot be classified according to position at third valuation (see para. 31).

## Redemption of Deficiencies.

36. As already stated (paragraph 18) deficiencies were disclosed in 292 cases, namely 44 societies and 248 branches. In the case of branches, a deficiency is primarily chargeable against the contingencies fund of the society of which the branch is part and, with one exception, these funds were found to be sufficient for the purpose. In the case of a centralised society in deficiency its contingencies fund is applied in the first instance towards making good the deficiency, and in 10 of the 44 cases which arose it was sufficient to restore solvency. In the case of one Northern Irish society, the membership being under 1,000, the deficiency remaining was made good by levy on the contingencies funds of other small societies in that country; in the other 33 cases the position was reported for consideration under the provisions of the statute relating to grants from the Central Fund.

The same course was taken with the branch society of which the contingencies fund was found to be insufficient to make good the deficiencies in the branches. The position in this case was that, out of 76 branches, 50 were solvent, 11 were brought to solvency by grants under Section 3 of the Act of 1926 and 15 remained in a state of deficiency after receiving the maximum grants for which this section provides. The total of the declared deficiencies in these branches was £7,424, but the society's contingencies fund amounted to no more than £4,806 and the balance of the deficiency remained as a potential charge upon the Central Fund.

37. Of the total amount of the deficiencies, namely £740,983, there fell to be discharged £235,876 by resort to contingencies funds, leaving an aggregate sum of £505,107 in regard to which the question of grants from the Central Fund arose. The cases in this latter category comprised the 33 societies and the 15 branches of one society referred to in the preceding paragraph.

The distribution of the amount of £235,876 obtainable from contingencies funds, under Section 76 of the Act of 1924, for the liquidation of deficiencies is as follows :—

	£
From the Contingencies Funds of the centralised societies concerned ...	152,599
By levy on the Contingencies Funds of small societies in Northern Ireland ...	381
From the Contingencies Funds of societies with branches ...	82,896
<b>Total ...</b>	<b>£235,876</b>

*Causes of Deficiencies.*

38. Evidence as to the main causes of deficiency is furnished by the following statistics relating to cases of apprehended deficiency, which have been reported to the Departments in connection with the question of grants under Section 3 of the Act of 1926. As stated in paragraph 18, grants totalling £946,661 were made under this Section, making good about 56 per cent. of the aggregate apprehended deficiencies. The number of cases involved was 520 (74 societies and 446 branches) covering a total membership of 1,479,960, of whom 852,258 were men and 627,702 women. In the aggregate these units carried forward from the third valuation sums amounting in total to about £533,000 which, with interest, would have grown to over £640,000 at the time of the fourth valuation. At this valuation, however, apprehended deficiencies totalling £1,687,644 were discovered, the full amount of retrogression thus being about £2,330,000.

39. The most prominent causes of decline are the heavy claims for sickness and disablement benefits and the shortage of contributions which have been experienced. The percentage ratios of actual cost to expected cost of sickness and disablement benefits are found to have been as follows.

	<i>Sickness Benefit.</i>	<i>Disablement Benefit.</i>
Men ... ..	111	153
Women ... ..	112	130

Corresponding percentages for the whole insured population are given later in Table XX. It is estimated that in the cases of apprehended deficiency the sickness and disablement claims taken together exceeded the general average by about 30 per cent. in the case of men and 15 per cent. in the case of women.

The contribution receipts in these societies have fallen short of the expectation on the valuation standard by an amount which is, on average, approximately double the shortage observed among all societies taken together, after bringing into account the various grants and other credits in aid of contribution shortage mentioned in paragraph 53.

## ANALYSIS OF PROFITS AND LOSSES ON THE VALUATION ESTIMATES.

40. As stated earlier in the report (see paragraph 19), the net surplus of approximately £36,700,000 disclosed by the valuation is made up of £24,700,000 carried forward from the third valuation and £12,000,000 net earnings during the inter-valuation period. At the third valuation there was a net surplus of £35,800,000, the amount carried forward from the second valuation being £23,300,000 and the earnings during the inter-valuation period amounting to £12,500,000. To this extent there is a fairly close similarity between the results of the two valuations. But

the causes of the growth of surplus in the two periods, after taking into account interest on the carry forward, show considerable differences. At the third valuation, as indicated in paragraph 19 of the Government Actuary's report, the increase of surplus was ascribed almost entirely to the interest which the surplus had earned (£6,500,000) and to the produce of margins in the valuation basis which ceased to be available after 1925 (£5,000,000). On the present occasion it is not possible to express so simply the main sources of the increase of surplus. It is impracticable, owing to considerations of cost, to make a detailed analysis of the various items of profit and loss which have combined to produce the results shown in the fourth valuations, but, with a view to exhibiting the financial working of the scheme, a broad examination has been made of the more important elements involved and the conclusions reached are set forth in the following paragraphs.

41. In the first place it is of interest to note the composition of the amount carried forward from the previous valuation, viz., £24,700,000, which is made up as follows (all figures being taken to the nearest £100,000) :—

TABLE XVIII.

<i>Analysis of Surplus brought forward from Third Valuation.</i>		£
Aggregate surpluses at third valuation ... ..		36,600,000
Add savings in respect of second valuation additional benefit ("treatment") schemes ...		2,800,000
		<hr/> 39,400,000
Deduct amount applied to additional benefits after third valuation ...		19,600,000
		<hr/> 19,800,000
	£	
Contingencies Funds... ..	5,200,000	
Grants from Central Fund ... ..	500,000	
	<hr/> 5,700,000	
Deduct aggregate deficiencies at third valuation ... ..	800,000	
	<hr/> 4,900,000	
Balance of Contingencies Funds not required to discharge deficiencies ... ..		4,900,000
		<hr/> £24,700,000
Total sum carried forward after third valuation ... ..		