

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		

It will be seen from this table that, apart from the balance of the contingencies funds which was not needed to extinguish deficiencies, and which accordingly became available as an addition to the surplus reserved, a sum amounting to £19,800,000 was carried forward out of the aggregate surpluses, viz., £36,600,000, disclosed at the third valuations (31st December, 1927-28-29). As this sum is substantially larger than that indicated in the Report by the Government Actuary on the Third Valuations (see paragraph 28 of Cmd. 3978), viz. £16,800,000, some explanation of the change seems desirable.

42. When the third valuations were completed the amount of disposable surplus was calculated on the assumption that the new schemes would ordinarily run for a period of five years, commencing $2\frac{1}{2}$ years after the valuation date. In this connection it should be borne in mind that the amount of surplus which can be certified as disposable is, under the Act, determined by the valuer, having regard to the circumstances and prospects of the society, as that part of the total surplus which may reasonably be expended within the period laid down for the duration of the scheme. On these premises the aggregate disposable surpluses amounted to £19,800,000, leaving the remainder of the surplus, viz., £16,800,000, to be carried forward.

Subsequent to the commencement of the additional benefit schemes, however, it was found practicable to narrow the interval between the dates of valuation and the commencement of the ensuing schemes from $2\frac{1}{2}$ years to 2 years, and by Section 5 of the Act of 1932 it was enacted that any scheme which was in operation at the date of the passing of that Act was to be curtailed by six months so as to terminate two years after the date of the present valuation, when new schemes would be started. The effect of this change was indirectly to strengthen the reserved surplus by about £2,250,000. Further, certain societies and branches did not allocate to additional benefits the whole of the surplus available for the purpose, the result being a further small addition to reserved surplus, bringing the aggregate figure up to £19,800,000, as indicated in Table XVIII. Adding to this figure the balance of the contingencies funds, viz., £4,900,000, the total sum carried forward at the commencement of the fourth valuation period was thus £24,700,000.

43. At the fourth valuation the aggregate surpluses, as shown in paragraph 19 above, amounted to £37,484,686, the corresponding figure for deficiencies being £740,983; the net surplus was thus approximately £36,700,000. As £24,700,000 of this surplus was brought in from the last valuation, the net earnings during the inter-valuation period were thus about £12,000,000, or about one-third of the total surpluses. Further, if the interest accruing on the sum carried forward during the inter-valuation period is deducted from this figure, it is found that of the present surplus less than one-fifth is attributable to transactions during

this period. The following analysis shows how the net earnings during the period arose:—

TABLE XIX.

Statement of Net Profits and Losses on the Valuation Estimates.

Source of Profit or Loss.	Profit.		Loss.	
	£		Men.	Women.
Surplus carried forward from third valuation... ..	24,700,000			
Interest thereon at 4 per cent. ...	5,100,000			
	29,800,000			
	Men.	Women.	Men.	Women.
	£	£	£	£
Sickness Benefit	3,400,000	300,000	—	—
Disablement Benefit	—	—	1,200,000	900,000
Maternity Benefit	1,900,000	100,000	—	—
Contributions	—	—	5,900,000	—
Interest in excess of 4 per cent. ...	3,400,000	—	—	—
Administration Expenses... ..	1,200,000	—	—	—
Mortality	—	—	700,000	—
Grants under Section 3 of 1926 Act	900,000	—	—	—
Interest at 4 per cent. on surplus accruing in period	600,000	—	—	—
Miscellaneous items	3,800,000	—	—	—
Total Profits and Losses	45,400,000	—	8,700,000	—
Net Surplus	36,700,000	—	—	—

It will be seen that, apart from the interest earned on the amount carried forward from the third valuation, the main sources of surplus during the inter-valuation period have been the favourable experience in respect of sickness and maternity benefits and the amount of excess interest earnings. On the other hand there has been a heavy loss of contribution income due to unemployment and a strain due to the cost of disablement benefit having exceeded the provision made for it. A detailed comment on the major items in the above statement is made in the following paragraphs.

44. In regard to the items of profit and loss in respect of women's benefits in the above table some explanation of the financial effects of the revision of women's benefits as from 1st January, 1933, is needed. Although the related adjustment of the actuarial basis, providing for a larger quantity of sickness, was applicable only from the date of the change, the new increased standard has been used for determining the "expected" cost of benefits for the whole of the period. The gains and losses shown in the above table in respect of women's monetary benefits accordingly indicate the deviations of the actual cost of benefits from the

expected cost calculated on the new standard. In fact, however, the provision actually available for these benefits from the beginning of the inter-valuation period until December, 1932, was that available under the old standard, and was about £1,500,000 less than that on the current basis. Up to the date when remedial measures could be brought into operation societies had thus incurred a further strain of this amount since the last valuation. On the other hand, owing mainly to the changed incidence of sickness from age to age, the reserves previously held for these benefits exceeded those required under the new conditions by rather more than £1,500,000 in the aggregate, the weekly contribution payable to the benefit fund being unchanged. The result was that at the date of change this reduction in the total liabilities of societies provided an offset to the strain mentioned above, and societies found themselves approximately in the position they would have been in had it been possible to bring the Act of 1932 into force at the beginning of the current inter-valuation period.

THE EXPERIENCE OF SOCIETIES DURING THE INTER-VALUATION PERIOD.

Sickness and Disablement Claims.

45. In Table XX the actual expenditure by societies on sickness and disablement benefits is compared with the "expected" payments, i.e., the estimated amounts provided for on the basis of valuation prescribed for the present occasion. As stated in paragraphs 15 and 16 above, the men's basis is the same as that in force at the previous valuation, but the women's basis has been changed as a consequence of the Act of 1932. The new provision for women has been adopted for the purpose of calculating the "expected" benefits throughout the inter-valuation period in order that the actual experience during the whole period may be viewed in relation to the altered standard.

TABLE XX.

*Sickness and Disablement Benefit Claims.
Comparison of Expected and Actual Payments.*

	Sickness Benefit.			Disablement Benefit.		
	Expected.	Actual.	Percentage of Actual to Expected.	Expected.	Actual.	Percentage of Actual to Expected.
	£	£		£	£	
Men ...	41,890,000	37,870,000	90	18,150,000	19,570,000	108
Women ...	18,700,000	18,370,000	98	11,510,000	12,600,000	109
Total ...	60,590,000	56,240,000	93	29,660,000	32,170,000	108

In reading this table the following points should be borne in mind:—

(i) The amounts of actual and "expected" cost are gross figures, i.e., inclusive of the State grant. The corresponding figures in Table XIX are exclusive of State grant, representing the net profits or losses to the benefit funds.

(ii) Due allowance is made for the additional benefits payable under schemes current during the inter-valuation period.

(iii) The figures do not include the sickness benefit temporarily provided to women who have left insurable employment within a year of marriage (Class K).

(iv) In the case of members of the armed forces of the Crown and of the Mercantile Marine, who do not receive normal benefits and in consequence pay contributions at a reduced rate, the "expected" cost has been reduced accordingly.

(v) The figures of actual cost have been adjusted to include benefits accruing during the period to members in hospitals, etc., but remaining unpaid at the valuation date.

(vi) The "expected" cost of benefits has been calculated without adjustment for the effect of arrears of contributions in reducing the rate of benefit payable. The actual expenditure will, of course, have been restricted to some extent on this account but there are no means of computing the "expected" cost with reference to the exact rates of benefit to which persons subject to reduction of benefits on account of arrears are entitled.

In regard to note (vi) it must be remembered that for about four-fifths of the duration of the inter-valuation period, i.e., for the benefit years 1930 to 1933,* the regulations in force were such that no deduction from benefit was made on account of arrears of contributions arising from inability to obtain employment. Moreover no penalties are imposed in respect of the first two weeks of non-payment in any year. Thus it is probable that, as regards the bulk of societies, adjustment for arrears would make little difference to the ratio of actual to expected cost of benefits. This conclusion is subject to a qualification in the case of societies insuring a large proportion of women, in respect of whom it may well be, more particularly where the membership is largely composed of married women, that the casual nature of their employment will lend unusual weight to this adjustment. For this reason the percentage ratio of 98 in the case of women's sickness benefit should not be taken as indicating that the claims experience has been more favourable than the provision in the valuation basis. In their case

* The benefit year is approximately co-terminous with the calendar year.