

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.

it is likely that a more accurately calculated ratio, if that were possible, would show a slight excess in the ratio of actual to expected claims measured on the present standard.

46. Considering the experience of the inter-valuation period as a whole, the claims of men appear to be not unsatisfactory, if the excess of 8 per cent. in the cost of disablement benefit is set off against the margin of 10 per cent. on sickness benefit. In the case of women, as explained in the preceding paragraph, no profits can be regarded as accruing in respect of sickness benefit, whilst the claims for disablement benefit show an excess of 9 per cent. over the new (and higher) valuation standard. It is not possible to analyse the valuation statistics year by year, but the trend of the expenditure over the five years 1929-33, which roughly correspond to the inter-valuation period, can be seen from the following table based on the annual expenditure returns of all societies:—

TABLE XXI.
Annual Percentages of Actual to Expected Sickness and Disablement Benefits—1929-33.

Year.	Sickness Benefit.		Disablement Benefit.	
	Men.	Women.	Men.	Women.
1929	102	116	104	108
1930	85	95	101	106
1931	88	91	96	102
1932	89	93	104	107
1933	93	97	113	113
1929-33	91	98	104	107

The differences between the percentages for disablement benefit given in Table XX and those in Table XXI above are largely accounted for by the fact that the latter table is based on the actual disbursement in the years in question (including payments in respect of benefits which accrued in earlier years), whereas in the former the total payments comprise the amounts strictly relevant to the inter-valuation period (see note (v) of paragraph 45).

47. The annual ratios indicate that the position is not so satisfactory as would appear from the over-all ratios. In the case of sickness benefit, consisting as it does to a predominating extent of illnesses of short duration, fluctuations from year to year of appreciable amount, due to epidemics and other temporary factors, are to be expected. Nevertheless, the claims of both men and women have remained after 1929 at a fairly steady and satisfactory level, the excess in that year being no doubt partly attributable to influenza claims. In the case of disablement benefit, however, although the claims fell slightly in the middle of the inter-valuation period, due mainly it is to be presumed to administrative action

following on a survey of a sample of benefit claims by the medical staffs of the responsible Departments in 1930, they showed a definite rise in the later years, and by 1933 the disablement benefit claims in respect of both sexes had reached a figure substantially in excess of the provision. This is a disquieting tendency, which to judge from such information as is available of the disablement benefit expenditure of later years has continued since the valuation date. Though the change from year to year is, on average, relatively small, it is evident that the claims experience for this benefit is becoming progressively more unfavourable and cannot be regarded as satisfactorily offset by the continuance of a favourable experience in respect of the claims for sickness benefit.

48. The foregoing paragraphs refer to the sickness and disablement experience of societies as a whole. In order to give some indication of the extent of variation in different types of society, the actual and expected payments have been subdivided for the five main groups. The results, in the form of percentage ratios of actual to expected payments, are shown in the following table:—

TABLE XXII.
Percentages of Actual to Expected Sickness and Disablement Benefits by Type of Society.

Group.	Sickness.		Disablement.	
	Men.	Women.	Men.	Women.
(1) Friendly Societies with branches ...	93	103	99	106
(2) Friendly Societies without branches	89	96	100	97
(3) Industrial Assurance and Collecting Societies	88	96	120	115
(4) Trades Unions	92	110	109	114
(5) Employers' Provident Funds ...	98	110	87	99
Total	90	98	108	109

It will be seen that in respect of both sickness and disablement benefits, and for both sexes, there is a fairly wide deviation from the average experience, though in considering these results it must be remembered that the average is largely affected by the results in Group (3), which includes 41 per cent. of the male and 57 per cent. of the female membership. These deviations are in part the result of occupational differences, as already mentioned in paragraph 22, though varying administrative standards may also be a contributory factor.

49. It may be well to include in this section some general remarks on the consideration of the sickness experience, which will be relevant not only to the results given in this report, but also to the expenditure figures of individual societies. As mentioned in paragraph

16, the standard on which the expected weeks of incapacity are based differs considerably as between the sexes. Whilst in the case of men it is the same as for the previous valuation, as regards women it has been appreciably augmented in respect of the married, though only slightly changed for the unmarried. Further, the provision in the case of both married and unmarried women is substantially larger than that for men. These are points of importance in comparing the ratio to the valuation standard of the benefit experience of men and women respectively, and of various societies. It must be borne in mind also that in the case of many societies and branches the claims have been well within the valuation provision. This does not necessarily mean that such societies are spending less than might be expected of them, having regard to the occupational conditions and other circumstances of their members; it does, however, imply that the position in a large number of other societies and branches is much less favourable than the standard given in the preceding paragraphs. The relative experience of cases with apprehended deficiencies has already been referred to in paragraph 39.

Maternity Benefit.

50. In Table XXIII are given the percentage ratios of the actual expenditure to the expected cost of claims for maternity benefit inclusive of the sums representing State grant. In this table the maternity benefits provided by the temporary insurance granted to women who have left insurable employment within a year of marriage are not included. The maternity payments to women in this class have corresponded closely to the assumption made in the valuation provision, viz., that 60 per cent. of such women would claim a maternity benefit during their period of free temporary insurance which terminates not later than the second anniversary of the date of marriage.

TABLE XXIII.
Maternity Benefit Claims.
Comparison of Expected and Actual Payments.

	Expected.	Actual.	Percentage of Actual to Expected.
	£	£	
Men's Insurance ...	8,630,000	6,380,000	74
Women's Insurance	1,280,000	1,170,000	91
Total	9,910,000	7,550,000	76

From this table it appears that whilst maternity benefit claims in respect of men's insurance were 26 per cent. below the provision the claims in respect of women's insurance were only 9 per

cent. below the provision. It must be remembered, however, that, as stated in paragraph 15 above, the provision for this benefit was reduced in the case of women by some 15 per cent. as compared with that made in the previous valuation; the replacement of this margin would evidently bring the two ratios into close agreement, as was the case for the preceding inter-valuation period.

Contributions.

51. The valuation basis allows for non-payment of contributions during periods of sickness and during periods of unemployment up to an average of 2.6 weeks per insured person per annum. Where the volume of sickness falls short of the "expectation" a profit on contributions consequently emerges, and the same result follows in a case in which the volume of unemployment—so far as it consists of complete calendar weeks during which insured persons were unemployed—falls below the amount provided for by the standard. If, on the other hand, the standard is exceeded, in respect of either sickness or unemployment, a corresponding loss on the valuation estimates is sustained. Between July, 1928, and June, 1932, an unemployed person who failed to pay contributions because of inability to obtain employment had his arrears excused in full. If, however, the failure was due to causes other than sickness or genuine unemployment he was given a free credit of two contributions and was liable to pay the remaining arrears or suffer a corresponding reduction of benefits. For the ensuing two years, namely to June, 1934, one-half only of the arrears due to genuine unemployment was excused, the insured person being charged with the balance (after deducting the two free credits given to all).

52. During most of the inter-valuation period societies, therefore, suffered losses by reason of the liberal conditions under which arrears due to unemployment were excused in full, and the strain rapidly became more serious as the level of unemployment rose during the period. In this connection it may be noted that this arrangement was instituted at a time when (in 1928) unemployment was at a very much lower level, and the actuarial provision in the contributions, together with an annual grant of £500,000 from the unclaimed balances in the Stamp Sales Account, was sufficient to protect societies from material loss. Having regard to the strain thrown upon the funds of societies by the complete excusal of arrears proving more than could be borne, a revised scheme was instituted by the Act of 1932, under which, a proportion only of the arrears being excused, the penalties imposed on the insured persons concerned became available to reduce the strain upon the funds of their societies; even so the residual burden due to the shortage of contributions remained at a substantial figure. As indicated in paragraph 63 below the arrears scheme has again been revised by the Act of 1935, under which it has been possible.

with the assistance of an Exchequer grant and by a general levy on the contributions of all insured persons, to renew the concession of complete excusal of arrears due to genuine unemployment.

53. Over the whole of the inter-valuation period there has been an aggregate shortage of contribution income of about £17,000,000, this loss to the funds of societies being reduced, in the first instance, to roughly £10,000,000, as a result of the provision for unemployment in the financial basis. About £2,000,000 was, moreover, made good by the annual grants of £500,000 made in respect of the four contribution years 1928-29 to 1931-32, under the arrears scheme consequent on the Act of 1928 (see preceding paragraph). In addition it is estimated that sums approaching £2,000,000 were recoverable from the insured persons themselves either by payment of arrears penalties or by reduction of benefits. Further relief has been afforded, in the case of certain societies with additional benefit schemes, by the application of sums from their disposable surpluses in remission of the arrears of their members. As a result of these various factors the net valuation loss on contributions was reduced to £5,900,000, as shown in Table XIX, representing a deficiency of about 5 per cent. of the valuation standard.

54. A further consequence of the extensive unemployment in the years under review is that the redemption of reserve values has been severely retarded. As the first charge on the portion of the contribution income applied to the service of reserve values is the provision of interest at 3 per cent. on outstanding reserve value credits, it follows that the full force of this shortage of contributions has fallen on the sums available for the redemption of reserve values. There has in consequence been a serious retardation of the normal operation of the sinking fund. The difficulties thus arising were accentuated by the creation, during the period, of new reserve values in respect of large numbers of voluntary contributors who entered health insurance under the Contributory Pensions Act of 1929. Fortunately, from the beginning of 1933, unemployment, which had previously been rising fairly sharply, began to show a downward trend which has since continued.

Interest.

55. The valuations are made on the assumption that the future earnings of the funds of approved societies will be at the rate of 4 per cent. per annum. Taking into account the rates current on the various sections of societies' funds (namely the reserve values, the credits in the departmental investment accounts for which investments are held by the National Debt Commissioners and the investments held by societies themselves or on their behalf by the responsible Minister or Department) the general average rate of interest which was being earned on the funds as at the valuation date (mainly December, 1933), was approximately $4\frac{1}{4}$ per cent. In

respect of reserve values, interest is credited at 3 per cent. per annum, i.e., a rate 1 per cent. less than the valuation rate. But, as will be seen from paragraph 12, these constitute only about 30 per cent. of the total funds of societies. The sums standing to the credit of societies in the departmental investment accounts bear interest at 5 per cent., the maintenance of this favourable rate—in respect of sums so credited up to the end of 1935, when a lower rate was prescribed for new accretions—being due to the investment in the past by the National Debt Commissioners of large sums in long term securities, mainly Local Loans stock. As regards investments selected by the societies themselves, these have been valued on a $4\frac{1}{2}$ per cent. interest basis, as explained in paragraph 17 above, and thus give a yield slightly in excess of the valuation requirements. Taking the assets of societies as a whole, the overall yield is, as indicated above, about $4\frac{1}{4}$ per cent. at the valuation date, the average rate over the inter-valuation period being approximately the same.

Apart from the excess interest receipts due to the rate of yield being thus above the assumed rate of 4 per cent., the interest profit includes all interest earnings on the balances with societies extraneous to the sums included in the benefit fund proper. In the main, these comprise balances on additional benefit (treatment) accounts and administration accounts, as well as contingencies fund monies and benefits accrued to members in hospitals but not yet disbursed. It follows that, of the total of £3,400,000 shown under the heading of interest profit, a substantial proportion—amounting to roughly one-third—is due to interest on the miscellaneous balances already referred to, the whole of which falls to the credit of the benefit fund. As a result the interest credited to the benefit funds was equivalent to an effective rate of approximately 4.4 per cent. on the average. These miscellaneous balances are likely to be substantially smaller in the future, and thus the gains from interest in excess of the valuation requirements which result from this cause cannot be as important as in the past. In spite of this fact, however, and of the changes in investment conditions which have occurred during the past few years, it would appear that the assumption of a yield of 4 per cent. interest on the benefit fund, which is required by the valuation basis, is still amply justified by the investment position of societies and of the departmental investment accounts.

Administration Expenses.

56. A sum of £1,200,000 is shown in Table XIX as savings out of sums available for expenses of administration. This arises mainly as a result of Article 3 of the Approved Societies Amendment Regulations, 1933, under which immediately before each valuation the balance of the administration account, if found to exceed a reasonable sum for working expenses (taken at 1s. per member) is transferred back to the society's benefit fund. The savings in question

had accumulated over a number of years and the gain to the benefit funds of societies at the present valuation is estimated to have amounted to about £900,000 in the aggregate. Further, societies which had bought or erected offices for their own business had done so at the direct cost of their administration accounts. Under revised arrangements, however, these societies were enabled to bring these assets into their balance sheets on condition that their administration accounts were in future charged with the appropriate rent. By this change of procedure the societies in question were enabled properly to write up the assets held against their benefit funds by nearly £300,000. It will be realised that a considerable part of the profit arising in the circumstances described above must be non-recurring, since the gains accumulated not only during the inter-valuation period but also in previous years.

Mortality.

57. As stated in paragraph 15, the basis used in respect of mortality corresponds to the experience of the population of England and Wales in the years 1920 and 1921. Actually there has been an improvement in mortality since those years at the ages covered by the insured population, namely 16 to 65. During the inter-valuation period the number of deaths returned by societies represented about 90 per cent. of the valuation standard in the case of men, and this number is in close accord with that expected from the mortality among the general population of the United Kingdom during the years in question. Prior to the introduction of the widows' pensions system by the Act of 1925 there was a material difference between the deaths returned by societies and the numbers deduced from the national statistics, and this shortage was thought to be mainly attributable to non-notification of deaths. Owing to the need for notification for pensions purposes the completeness of the health insurance records has evidently been considerably improved. In the case of insured women the position in this respect, though not susceptible to precise measurement, does not appear to be quite so satisfactory.

The fact that the notified deaths were less than the expectation on the valuation basis is the reason for the item of £700,000 included in the schedule of profits and losses (Table XIX), this sum representing the loss due to the amount of reserves released on death being smaller in the aggregate than that assumed in the basis. To the extent that any part of this loss is due to members who, having been lost sight of, have been treated as normal cessations from insurable employment whereas in fact they have died it is, of course, an avoidable loss. In such circumstances the reserve which should remain with the society on death is transferred to the Reserve Suspense Fund.

Appreciation (and Realisation) of Securities.

58. As indicated in paragraph 19, the benefit funds brought into the valuation balance sheets of societies were somewhat in excess of the balances shown in their books. The reason for this is that whereas the societies carry their investments at cost, they are, for the present purpose, valued on a prescribed basis which, as explained in an earlier section of the report (paragraph 17), places upon Stock Exchange investments values such that the interest income is equivalent to a yield of $4\frac{1}{2}$ per cent., appropriate provision being made in the case of redeemable securities. In the aggregate the "appreciation" amounted to about £1,800,000. At the preceding valuation investments were valued at the then current market prices and these exceeded the corresponding book values by about £2,200,000. It should not be inferred, however, that during the inter-valuation period a strain equal to the difference between these figures has been incurred, since in the meantime net gains amounting to nearly £500,000 had accrued owing to the realisation of certain investments. On balance, therefore, there has been no appreciable change.

Miscellaneous Items.

59. Miscellaneous profits have accrued from a variety of causes, amongst which two call for special mention. The first of these is the addition to the funds of societies arising from the sums which they retain in respect of persons who have ceased to be insurably employed. These sums represent the difference between the full valuation reserves and the transfer values taken to the Reserve Suspense Fund, and their purpose is to protect societies against the possibility of an adverse effect on their sickness experience by the withdrawal of the exitants. In the aggregate the sums accruing to societies during the years under review amounted to about £1,300,000, and in the case of many societies, subject to a high rate of lapse, the gain from this source has without doubt been a material factor in maintaining the financial soundness of the society concerned.

60. The second item of profit is attributable to the charges for medical benefit having been on the average a little less than the prescribed maximum of 13s. per head. This gain is due to two causes, the one general affecting all societies and the second limited to those with members resident in Scotland. All societies share rateably in the small profit due to the number of charges made for medical benefit being slightly less than the number of members on their registers, owing to certain causes of which the most important is absence from the United Kingdom. There is the further point that in Scotland the total charge for medical services has been about 7 per cent. less than elsewhere—largely owing to the lower expenditure on drugs. I estimate that the total saving in respect of medical benefit amounted to nearly £1,000,000 during the inter-valuation period.