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## FRIENDLY SOCIETY FINANCIAL REFORM.

MEMORANDUM BY THE REGISTRAR OF FRIENDLY SOCIETIES.

*Presented to both Houses of the General Assembly by leave.*

The REGISTRAR of FRIENDLY SOCIETIES to the Hon. the COLONIAL TREASURER.

SIR,—

9th September, 1895.

I have the honour to lay before you a scheme of friendly society financial reform which is based on the assumption of the concurrence and voluntary action of societies.

On the question of compulsory registration and enforcement of the adoption of certified tables of contribution diametrically opposite views are entertained. I beg leave, therefore, to append an extract from the report of the English Royal Commission on the Aged Poor bearing on this subject, together with recent expressions of opinion on both sides of the controversy by English experts and friendly society leaders.

I have, &c.,

EDMUND MASON,  
Registrar of Friendly Societies.

### A SCHEME OF RECONSTRUCTION OF FRIENDLY SOCIETY FINANCE ON A SOUND BASIS.

In the early history of New Zealand friendly societies, when as yet there was no record of their experience, it was frequently asserted that English sickness rates were unsuitable as a basis for the valuation of New Zealand societies, and that the use of values so calculated was not justified under new and, as it was assumed, more favourable conditions. The sickness statistics, however, which have since been collected afford sufficient evidence that the adoption of an English experience did not err on the side of severity. The total sickness rate of New Zealand societies during past years has approximated closely in amount and value to the standard which was selected. But there is a characteristic difference between the English and New Zealand experiences, the rate per member in the latter at the lower ages being less than in the former, and at the higher ages greater. In this difference lurks an unknown and possibly serious danger. Owing to the very light mortality in New Zealand generally, and among friendly society members in particular, the number of lives at risk at the higher ages is greatly increased. The conjunction of these two factors—the greater sickness rate at the higher ages and the light mortality—cannot fail to produce an increased total sickness after middle life. Again, while the sickness benefit is continued throughout life, it is probable that the rule which limits the benefit to members suffering from specific sickness will not be strictly enforced. The payment of old-age pensions under the guise of sickness benefit is, in England, understood to account for a considerable part of the existing deficiencies. This danger to friendly society finance is referred to by a capable critic in the following terms: "It is a well recognised truth that the best of tables will be made of none effect unless a society is also under sound and economic management; while first and foremost among the essentials of such management stands supervision of sick claims. In the present condition of things, old members have received, and are receiving, as sick-pay weekly annuities which cover the loss of earning powers arising from the disability of old age, and which have never been paid for. It is overlooked, oftentimes advisedly, that senile decay, a natural process, is not specific sickness. A friendly society sickness benefit was never intended to do more than secure the beneficiary against that loss of earnings which is liable to befall him during his working period of life. The period of past work should be separately insured for. And because this has not been, and is not, the rule, a heavy and increasing strain is put upon the sick funds, a strain, moreover, which they were never intended to bear."<sup>\*</sup>

All friendly societies would therefore act wisely in removing this source of uncertainty and probable danger; while, for those in regard to which the choice lies between reconstruction and insolvency, the adoption of a fixed age at which benefits shall cease is not only advisable but necessary, and not only necessary but urgent. Many societies have defiantly disputed, or with a masterly inactivity ignored, expert advice and warning, and for them the sacrifice involved in the adoption of any scheme of reconstruction on a sound basis increases year by year. Every liability which an unsound society pays in full perpetuates the injustice whereby an undue share of the contributions of the other members are expended in discharging obligations which have not been fully provided for by the beneficiaries.

In devising a scheme of reconstruction which shall be applicable generally, principles only can be indicated. The details of application must depend on a number of varying circumstances, and on the voluntary acceptance by each society of one or more possible alternatives. Care must be

<sup>\*</sup> From a paper read before the Royal Statistical Society, in April, 1895, by the Rev. J. Frome Wilkinson.

taken that an equality of sacrifice is required from each member, so that the readjusted burden may not be laid exclusively or unfairly on any individual or section.

Unless action be taken by the unsound societies, some members will receive their benefits in full, while the other claimants will have to go unsatisfied. Reconstruction is therefore urgent, in order that all may be fairly treated. There is no possible means of escape from the unpalatable fact that all must thus accept a composition; but this is fairer than that some should have their claims settled in full, and that others should receive nothing. Though a society be unable to pay more than 10s. in the pound, yet, whatever the amount, it is just that all members should receive the same dividend. It is high time, also, that societies should cease to enrol members when it is certain that they will not be able to keep faith with them. It is unfortunate when persons ignorantly band together for mutual help on an unsound financial basis; it is culpable when a society undertakes a new contract after distinct proof has been afforded that it cannot possibly fulfil those already existing.

The effect of the adoption of a fixed age at which the sickness benefit and the contribution shall cease will be that in some societies there will be a surplus, in others solvency, and in the remainder a deficiency still. In respect of the last class, therefore, further action will be necessary, if they, too, are to become solvent. If they will not increase their contributions, some additional portion of the benefits must be sacrificed. In those societies which possess an available surplus, such surplus should be devoted to provide an old-age annuity, which should be inalienable. In connection with this, it is suggested that the State might advantageously encourage thrift by offering an old-age annuity, not exceeding £26 per annum, to all persons on liberal terms.

Another feature of a reconstruction scheme must be the abandonment of the condemned system of a uniform contribution at all ages. If existing members of a society in which such a rate is in force will not assent to an increase of their contributions, their benefits must be adjusted so as to correspond with the premiums which they pay. For new members a graduated scale according to age at admission must be adopted. It is unnecessary to repeat here the unanswerable arguments against the uniform rate and the equal levy, for no one who understands friendly society finance will be found to defend these antiquated methods. With the introduction of a comprehensive reform these relics of an unscientific system will pass and be forgotten.

Nor, in a thorough reform, must the special danger be neglected which threatens small societies and branches, arising from the improbability of their experiencing an average rate of sickness. In a society with branches the liability in respect of death claims is prudently distributed over the total membership, and the argument in favour of a similar arrangement in the case of the sickness benefit is, from a financial point of view, yet stronger. Against the amalgamation of the sickness liability it is urged that less care is likely to be exercised in dealing with claims when there is a common fund or a combined liability. In answer to this, it may be said that sick pay can be given only on the doctor's certificate, and that no reason is apparent why he should be found less faithful to his duty in the one case than in the other. Moreover, so far as the necessity for discriminating between specific sickness and senile infirmity shall have ceased, the doctor will not have to choose, as under the present system, between hardship to the individual member and a strictly literal interpretation of the rule. Thus that which is now placed in the scale against the advantage of amalgamation may be said almost to disappear. In order to avoid misconception, it may be stated that amalgamation of liability does not necessarily involve centralisation of the funds. The danger to small branches is not fully realised, probably because of the fact that the lives at risk are mostly young. Friendly societies, however, should provide against all probable contingencies, and a danger must not be ignored because it is regarded as remote. The consequences of a heavy sickness experience in a small membership are so disastrous that some attempt to grapple with the question, difficult though it be, is essential to sound finance.

There is one matter connected with friendly society finance which, although not necessarily affecting a society's solvency, cannot be left out of view when questions of progress and reform are under consideration. Many years ago English societies sought to avert the threatened exhaustion of their accumulated funds by reducing the rate of sick pay after a certain duration of continuous sickness. This impending danger should have taught societies to be more cautious in fixing the ratio between contributions and benefits. When, however, societies were established in New Zealand, the financial error was repeated, and the corrective which dire need forced on English societies was perpetuated as part of the system, whereas, being but a makeshift, it ought to have been discarded. What argument can be advanced in favour of the almost universal practice of reducing the sick pay? Surely the sufferer from chronic sickness has the greater need. Why, then, should a reduction be made whereby even the benefit sometimes becomes almost valueless? If the contribution be insufficient to provide more than 15s. a week as continuous sick pay, why should the benefit be fixed at 20s. a week for the first six months, with subsequent reductions? Such a distribution of the benefit is on a wrong principle—the least help to the most helpless.

The acceptance of the scheme by some societies and its rejection by others would effect their separation into two classes. Such a result would practically coincide with the policy recommended in the minority report of the Royal Commission on Friendly Societies appointed in 1870, which advocated the granting of registration to all societies, and a special certificate for those whose contributions might be considered adequate. That recommendation assumed the calculation and issue of authorised tables of contributions for benefits, such tables to be published as soon as the work could be accomplished. The chief difficulty in the way of accurate calculation of such tables would be removed by the adoption of a limiting age for the sickness benefit.

The better to protect the benefit funds, an amendment of the Friendly Societies Act should provide that no society or branch shall in future invest more than 10 per cent. of its accumulated benefit fund in land and buildings, and that interest at the rate of 4 per cent. per annum shall be paid by the management fund on the capital thus invested as virtual rent, and that the management fund be responsible for all expenses connected with the property.

It may be useful, though it should not be necessary, to point out that, should societies accept a reconstruction scheme such as has here been sketched, and though they would then be properly described as solvent according to calculations based on knowledge up to date, they must, nevertheless, continue to submit their financial affairs for periodical investigation. A society's prosperity is largely conditioned by capable and careful administration, and also by the relation existing between actual and expected experience. The larger the membership, the greater is the probability of a normal experience, but in any society a considerable divergence from the expectation may happen, especially in respect of sickness. Solvency to-day is not, therefore, a guarantee of solvency for ever. An actuarial certificate is given as provisional evidence only of the sufficiency of the members' contributions under certain conditions, and must be frequently renewed. But, although such recurring investigation be necessary, there need then be no anxiety. No adverse experience is likely to be beyond the power of easy remedy. It must also be understood that an actuarial certificate is not a Government guarantee. While societies continue to manage their own affairs they must be self-reliant.

It may be added that, in order to facilitate insurance for an old-age annuity, the Royal Commission on the Aged Poor recommended in their report that all restrictions on the age at which persons may join a friendly society be removed. It is a question for the consideration of societies whether the fusion of adult and juvenile branches would be found convenient in practice. It is stated that a Bill has been introduced into the English Parliament, with the general concurrence of friendly societies, embodying a provision to give effect to the suggestion, from which it would appear that the societies indorse the recommendation of the Commissioners.

No claim to novelty is made on behalf of the principles of this scheme. With increased knowledge of New Zealand vital statistics, and of the sickness experience of New Zealand friendly societies, the time is come when it is possible to calculate tables of values for a sickness benefit terminable at age 60 or age 65. Moreover, the danger of procrastination of reform actually increases, and is more apparent, year by year. There is also a spirit of unrest and dissatisfaction in the unsound societies as the young members realise that they are destined to be the victims of the financial error. For them the choice lies between financial reform and loss of all, or nearly all, the savings whereby they are seeking to provide against the inevitable rainy day.

#### *Opinions on the Question of State Control.*

The following is an extract from the report of the English Royal Commission on the Aged Poor, issued in February, 1895:—

Experience has shown that the members of societies are not sufficiently alive to the advantages of registration under the Act, but Mr. Brabrook does not think that compulsory registration would be desirable. He says: "If societies will not come to be registered, it is hopeless to attempt to compel them to come: the proper course is to find out what is the reason for which they are not registered, and to meet it in the best way possible." And, later, "I would rather wait the gradual wish being experienced by societies that they should obtain the benefits of the existing Registration Act than take any violent means to bring them under it." We have received general evidence as to the objection of friendly societies to any extension of State control, but we note that the large Orders are recognising the evil of unlimited competition, and the Manchester Unity of Oddfellows, at their recent general meeting, passed a resolution in favour of some legislation to "prevent societies enrolling members by promising larger benefits than the contributions can meet." Mr. Watson, the actuary of the Unity, dwells strongly on the evil; but he, like Mr. Brabrook, is averse from any legislation, and thinks the matter should be left to the societies themselves, of which he says: "They do improve; they improve as rapidly as we can almost expect them; they are gradually coming to it." In illustration of his view, Mr. Watson has given us an interesting account of the efforts made by the Manchester Unity for the past twenty years to insure actuarial solvency in their lodges, with the result that the more recently founded lodges are, he says, almost all on a perfectly sound footing. It may here be incidentally noted that the various districts and lodges of the affiliated Orders are to a large extent independent, so that, for example, while the newer lodges of the Manchester Unity are generally solvent, some of the older ones are, as Mr. Watson admits, in a less satisfactory position. The extent of control of the lodges by the Unity as a whole has been discussed by Mr. Watson's evidence; but, while it is stated that in extreme cases an insolvent lodge can be expelled from the Unity, it does not appear that the society as a whole is legally responsible for the solvency of individual lodges. Notwithstanding, the Order annually raises a large sum by a levy on all lodges possessing at last valuation more than 85 per cent. of assets to liabilities for the special purpose of assisting branches which are below a certain standard of solvency with such an amount of relief as will enable them, by small adjustments of contributions and benefits, to become solvent. Although it is generally admitted that the large Orders are making every effort to attain actuarial soundness, we have received from Mr. Hardy and Canon Blackley strong statements as to the unsatisfactory position of most societies, the reason, as given by Mr. Hardy, being "their starting a great many years ago upon faulty tables." Canon Blackley has quoted figures indicating that even the two large Orders show a considerable deficiency in their valuations, and he urges that a society to be really on a proper footing should be able not merely to maintain its position by the help of younger members, but should "be sound and keep sound without the entry of one younger man." He holds that the competition of bad friendly societies promising more than they can perform is at the root of the evil, and that if, without interference with any existing society, "the law should make it impossible for any new society to be established without good actuarial certification as to the reasonableness of the tables which they offer," the good societies would be able to offer a secure provision. It is not within our province to make any definite recommendation on this subject, but we feel that it is one of great importance. There can, unhappily, be no doubt that unsound and badly managed friendly societies, though less numerous than formerly, often exist. The evil done by such societies is incalculable, and appears not only in the hardship resulting to the individual members, who are deprived of the benefits to secure which many may have devoted the savings of a lifetime, but in the general discouragement to thrift induced by each failure. Witnesses of all shades of opinion have spoken before us of the harm done by the collapse of such societies, and none, perhaps, more forcibly than Mr. J. H. Smith. "My father," he told us, "was for many years in a sick club; still, when the new societies made a start, such as the Hearts of Oak, the Oddfellows, and the Foresters, the young men joined them, therefore the sick club failed, and the dividend was one shilling." His father was seventy when the club broke up, and finally, after working till eighty-nine years of age, he was compelled to seek parish relief. "Seeing this," he adds, "I declared I would never join any friendly society." It would certainly be highly desirable if means could be satisfactorily devised for checking the further development of such unsound societies, and, if possible, reconstituting those at present existing, so as to secure financial stability, even at the cost of some of the benefit now nominally offered. We wish to record our sense of the grave responsibility incurred by those who give the sanction of their names and patronage to friendly societies without in any way ascertaining either the suitability of their tables to provide their promised benefits or the safety of their actual management. And, in view of certain notorious and lamentable cases, there is much to be said for some further supervision of all provident societies, such as Mr. Fatkin recommends, in the direction of inspection without interference, by which the protection of members against the

management, which is sometimes so much needed, might be more fully and universally secured than is possible under present arrangements. Of course, there is the corresponding danger, due to the common assumption that where the Government interferes it guarantees. It is obvious that, in justice to the rest of the community, a guarantee, if given, must imply effective control.

In a paper read before the Royal Statistical Society, in April, 1895, the Rev. J. Frome Wilkinson says:—

Competition for cheapness causes societies to undersell the benefits they offer. . . . I can only see one effective remedy—namely, that set forth in a resolution introduced by the Manchester Unity at the recent conference of friendly societies held in London, and seconded by the reader of this paper, on behalf of the United Sisters' Suffolk Unity: "That the Parliamentary Representative of the Order be requested to interview the Lords of the Treasury, to induce them, in the interest of the public, to propose to Parliament an amendment to the Friendly Societies Act of 1875, to prevent societies enrolling members by promising larger benefits than the contributions can meet."

The proposed amendment is the addition of the following words to that clause of the English Act which corresponds to section 5 (7, c.) of the New Zealand Act:—

But should the tables in use in any society be considered by the Registrar to be insufficient to pay for the assurance promised, he shall compel the society to increase its contributions or decrease its benefits in order to prevent insolvency. Should any society adopt or continue to use tables of payments and benefits not certified by a member of the Society of Actuaries within two years after the passing of this Act, it shall incur a penalty of £25 for every month it continues to violate the provisions contained in this clause.

Mr. Wilkinson continues:—

Such amendment would kill non-actuarial tables, and would practically be an extension of a proviso, already in operation, to the effect that the tables for contributions for superannuation or deferred annuities must be certified by some actuary approved by the Treasury. The proposed extension would strengthen the hands of the friendly society leaders, and cut the root of objection—namely, the fear that the partial application of such reform would tend to increase the membership of those inferior societies which did not adopt it, and which would continue to undersell a sound article of insurance. The remedy, in other words, should be made universal in operation. This is not in itself a new proposal, having been from time to time in past years introduced into both Houses of Parliament. But the above occasion is the first on which it has been brought forward by a great friendly society sitting in delegate conference with kindred societies. A large measure of support was awarded it, and the proposal was only lost on division through some doubt as to equity in application, arising out of the question whether the Registrar could make allowance for the interest of funds or realised assets coming to the assistance of tables of contributions which otherwise might not be deemed as sufficient. Another amendment of the Act of 1875 is required to make the proposed remedy universal in application, and this was carried at the conference with strong expressions of feeling in support. It reads as follows: "That, in the opinion of this conference, the Friendly Societies Act should be further amended by making it compulsory upon all benefit societies to register under the Act, and providing penalties for meeting or transacting business until they are so registered." I venture to express a firm conviction, shared in by many other delegates at the conference, that it is only by the aid of such legislative enactments as the foregoing that the bulk of friendly societies will eventually be in a position to attain the goal of actuarial solvency.

In uncompromising antagonism to this view is an editorial article in the June number of the *Oddfellows' Magazine*, 1895:—

A few remarks on the question of State prohibition and State regulation will not be out of place. It is true that, in a moment of pharisaical self-satisfaction, the Southampton A.M.C., in 1893, passed a resolution calling upon the Government to prohibit societies from using any but properly certified tables of contributions and benefits. It is also certain that the deputies who so glibly said "Aye" to the proposition had reckoned without their host. They could not have known what was afterwards told to the A.M.C. at Northampton by P.G.M. Watson, in tones which carried conviction, that if such a law were put in operation the Manchester Unity itself would have stood self-condemned. They did not consider, in their self-complacency, that many lodges of the Unity, working under Unity tables, were themselves charging too little contributions for the risks accepted. Apart from this home-thrust, the deputies could not have realised that such a resolution was a departure from the policy followed by the Unity since its formation—a policy which has placed it in the forefront of friendly societies both as to numbers and funds—the policy of abstention from political agitation, and rejection of Government interference. The Southampton A.M.C. must, in its fit of temporary aberration, have mistrusted the Manchester Unity for its own power of instruction and the force of its example. Though lost sight of by the Southampton A.M.C., these points and others were manifest to the Lords of the Treasury, to whom the Parliamentary Agent ineffectually applied to get the resolution enforced. "Ye know not what ye ask," was virtually the reply of their Lordships when approached on the subject. How true was their perception of the actual condition of affairs was manifested at the Northampton A.M.C. in 1894, when the Parliamentary Agent, in his report, asked for explicit instructions as to the course he should pursue. It was suggested by a proposition that a Bill should be drafted embodying the Southampton resolution; but the representatives of the Manchester Unity, grown wiser with a year's reflection, and enlightened by the weighty words of the Actuary, would have none of it. Though the resolution passed at Southampton has never been formally rescinded, it was practically relegated to the limbo of impossible projects by the following A.M.C., and it is a pity that the report of the Royal Commission should have contained no reference to the shelving of the resolution of 1893 by the rejection of one to give it effect in 1894. An attempt was made subsequently to obtain a resolution in favour of the compulsory principle at the Friendly Societies' Conference, but here again it met with defeat. Friendly societies will not permit the faintest shadow of State control to endanger the liberty they now enjoy, however much the Manchester Unity may desire the enforcement of adequate rates of contribution for benefits promised. Let it not be for one moment assumed that any objection is offered to the use of sound tables on the part of every society promising certain benefits in return for fixed payments. The objection is to the means by which proper tables are proposed to be enforced. Reform must come from within if it is to be of lasting benefit; if it is imposed from without, it will either be evaded, or those societies or branches which are not prepared for its adoption will be legislated out of existence.

In the discussion which followed the reading of Mr. Wilkinson's paper, Mr. R. P. Hardy, F.I.A., "did not think that legislation should be tried as a remedy." Mr. E. W. Brabrook, Chief Registrar of Friendly Societies, was "certain that all proposals to make registration compulsory would be futile, and could serve no useful purpose." Mr. J. J. Stockall, Mr. R. W. Moffrey, and Mr. A. Chapman, members of friendly societies, expressed their objection to the legislative interference advocated by Mr. Wilkinson.

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