

THE DISSOLUTION OF A SUPERANNUATION SOCIETY

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INTRODUCTION

THIS paper is founded as factually as possible on a case which arose in practice. Originally it was intended to present the paper as a collection of the actual documents, letters, valuation reports and so on, with only a minimum of outright description. Unfortunately, it gradually became clear that the result would not be suitable and practically the whole has been rewritten. Nevertheless, an attempt has been made to retain as much of the atmosphere as possible.

The paper in its final form owes much to certain cogent criticisms of an earlier draft made by actuaries and others to whom it was submitted and who prefer to remain anonymous; acknowledgment must, nevertheless, be made of the very valuable help they have given.

The problem arose as a severely practical one. The members of the Society knew nothing of actuarial science and cared less. They were not interested in fine distinctions, legal or arithmetical, though they did with only very few exceptions preserve a very heartening sense of broad justice in circumstances which gave no one all that he could have hoped for.

PRELIMINARY

In November 1946 the Superannuation Society found itself, owing to the exigencies of the war, without an Actuary, and wrote in the following terms to one who had not acted for it before:

The Actuary.

Dear Sir,

The Society has decided to have a valuation with a view to its dissolution as at the 31 December 1946, and I have been instructed by the Committee to ask you to conduct it. For your further information I enclose copies of the last valuation report at 31 December 1938, the Rules with amendments to date, and the Accounts for the last few years.

No action has been taken with regard to the dissolution of the Society except that at a general meeting of the members, held recently, it was resolved 'that we recommend the winding up of the superannuation fund on the basis of the Actuary's report'.

The intention is to satisfy each member, beneficiary and contributor, in as just and equitable a manner as possible and it was for this purpose that a decision was made to proceed with the valuation.

Owing to the increased contributions they are paying for National Insurance, several members are anxious to discontinue paying contributions to the superannuation fund as soon as possible. Would you suggest this course as being in order, say after the 31 December 1946?

Yours faithfully,
Secretary.

From the papers thus received some of the facts surrounding the Society became apparent. The Superannuation Society was registered as a Friendly Society and provided pensions for the members of a provincial union working in a limited area at a rather specialized but relatively unskilled trade. The benefit was a pension of 10s. per week payable upon retirement after age 60, and after twenty years of membership. The contribution by the members was 2s. 3d. per week, having been increased from 1s. 3d. by an amendment in 1939.

A perusal of the 1938 valuation revealed a deficiency of about £45,000 with invested funds of about £43,000 and a liability for immediate annuities to members already on pension of over £50,000. The position, however, had improved between 1933 and 1938 inasmuch as the degree of solvency had risen from 10s. 1d. in 1933 to 13s. 3d. in 1938.

Having given preliminary consideration to the papers the Actuary formed the opinion that the Society was probably still in a position not unlike that in 1938. That would make the dissolution of the Society on any fair basis difficult, if not impossible, but, during the abnormal war-time conditions of the intervening eight years, deaths, entries and withdrawals could have altered the position fundamentally. Accordingly, the Actuary felt that no useful progress would be possible until an up-to-date valuation was available and wrote to the Society in the following terms.

The Secretary.

Dear Sir,

I have duly received your letter of November 1946 with the enclosures as advised. I shall be very pleased to act for you.

Unfortunately since the Society is still probably in serious deficiency it is going to be difficult, if not impossible, to find a fair basis on which to divide the funds of the Society upon dissolution. It may even be preferable to keep the Society in operation having first reconstituted it drastically. If then, the membership can be maintained it may be possible to nurse it back to full solvency over a period of years.

In the circumstances therefore, I can no more advise the Society to stop contributions as from the 31 December 1946 than I could at the moment advise the younger members to continue their contributions to it.

I shall be sending you full details of my requirements for the valuation, and I suggest that you send me the data as promptly as you can after the 31 December. I shall then do my best to let you have the valuation quickly so that further action may be taken in the light of it.

Yours faithfully,

There was then some delay in supplying the requisite data and in providing the audited accounts for the year ending 31 December 1946. It was not until May 1947 that the valuation report could be presented.

VALUATION

The valuation was presented on the official form F40 as issued by the Registrar of Friendly Societies, but for the purposes of this paper it will suffice to abstract the salient features.

There were 757 members on the valuation date grouped according to ages as follows:

Age group	Number
36-40	7
41-45	27
46-50	119
51-55	117
56-60	115
61-65	128
66-70	92
71-75	77
76-80	52
81-85	20
86 and over	3
Total	757

The valuation basis used was the Central Counties Rural Districts Mortality (1921 Census—males) combined with 3% interest. It was also assumed that those entitled to retire at the time would do so immediately, but that otherwise the retirement age would in future be 65 as it was thought that the advent of the higher scale of National Pensions would tend to defer retirement until then, on the one hand, and discourage active work beyond then, on the other hand.

On this basis the expected deaths over the previous five years came to 140 and the actual deaths to 163 so that the mortality basis was in reasonable agreement with the experience, being if anything somewhat lighter.

The effective rate of interest earned over the previous five years had varied between 3.90% and 4.24% and averaged 4.01%. Unfortunately, however, the investments included a high proportion of Railway Stocks which were due to be replaced by Government Stock on the nationalization of the undertakings. It seemed unreasonable, therefore, to expect much more than about 3% in the future.

In the following table, the values of the contributions payable are compared with the values of the benefits receivable, for various ages of entry, in each case on the valuation basis.

Age at entry	Value of benefits	Value of contributions
	£	£
16	40.7	140.3
20	46.3	134.3
25	54.6	126.5
30	64.3	117.4
35	75.8	106.8
40	89.9	94.8

It may be seen that the current contribution rates were much more than adequate and if they had been in operation throughout the history of the Society, or if it had not undertaken heavy initial commitments without adequate special contributions when it was founded, its position at the present time would necessarily have been radically different.

The Dissolution of a Superannuation Society

Details of the valuation were given in the F 40 for different groups of members according to the following schedule:

Valuation abstract

Class	Number	Annual pensions	Annual contributions	Present value	
				Pensions	Contributions
Pensioners	245	£ 6,370	£ —	£ 45,955	£ —
Contributors already entitled to retire	139	3,614	—	37,280	—
Contributors over 60 not yet entitled to retire	10	260	59	1,746	247
Contributors not yet 60	363	9,438	2,124	50,795	21,333
		Totals	2,183	135,776	21,580

The valuation results were:

Valuation Balance-Sheet

Liabilities		Assets	
	£	£	£
Present value of pensions	135,776	Funds	44,013
		Present value of future contributions	21,580
		Less negative values	40
		Appreciation of investments	600
		Deficiency	69,623
Total	135,776	Total	135,776

It may be seen that the Society's position was very serious. It had a deficiency of approximately £70,000 out of total liabilities of approximately £136,000 with invested funds of only £44,000.

The report, which was prepared in the form of a normal quinquennial valuation, concluded with some general observations upon the valuation basis and its suitability, and then proceeded to mention the possibility of the Society being dissolved. It included the following explanation.

The difficulties of the Society might be summed up in the following terms.

- (a) If you dissolve, the invested assets of the Society will barely meet the liability for existing pensioners whose position in a dissolution should be protected. Certainly the invested assets are not sufficient to enable the Society to buy the requisite pensions for them from the Post Office or from an Insurance Company.
- (b) If an attempt is made to refund to all existing contributors the amount of the contributions they have made to the Society, there will be very little left for the existing pensioners.

- (c) If you continue to operate the Society as at present constituted, it must sooner or later become completely bankrupt. The stage must ultimately be reached when there are no funds to pay the emerging pensions because of the accumulated liabilities from the past. This is so, notwithstanding that at the present rates the contributions to be paid by new entrants are quite adequate.

It seems therefore that the only hope is to reconstruct the Society drastically. The pensions to be paid both to existing pensioners and prospective pensioners must be reduced and the rules must be altered to make membership more attractive to young men in the hope that more of them will join the fund. If that can be done it may be possible to nurse the Society gradually back to solvency. Any such reconstruction will be difficult as serious problems of equity are involved, but in spite of that it is probably the least unfair of the various alternatives open to the Society.

CONSULTATION

In June 1947 the Actuary met the Committee of Management of the Union which was, *ipso facto*, the Management Committee of the Superannuation Society. The discussion was a lengthy one and the possibility of continuing the Society after appropriate reconstruction was pressed by the Actuary. It became clear, however, that, attractive as the idea might be, it had to be abandoned.

Note. It may be worth pausing here to consider the rationale of pressing the Society to reconstruct and to continue its operations rather than to dissolve, since it might be said with some force that such a thoroughly insolvent organization was better dissolved and the sooner the better. It is a fact that the possibility of reconstruction was pressed, but it is not easy to give precisely the motivating reasons as they appeared to the Actuary at the time. The following were probably the more important reasons.

- (a) An instinctive feeling that, since the Society had been formed, it had a job to do, and might yet be capable of doing it if only the proper basis for its future operation could be discovered.
- (b) The deficiency that had to be made good might, in that way, be spread over new and old members of the Union so as not to be too heavy a burden upon any.
- (c) Any new entrants at the younger ages would, on the basis of current contributions, provide a very substantial profit.
- (d) There was an interest margin and, although it must be less in future, it might still provide some relief.
- (e) There was some hope of profit from mortality.
- (f) There was some hope of profit from late retirements. It was assumed in the valuation that all those now entitled to retire would do so immediately whereas some might defer retirement for a number of years.
- (g) The original source of the trouble was that heavy initial liabilities had been assumed without special contributions to cover them. The benefits for the then older members had been provided by the then younger members, and if that was ever fair then it was fair to continue the process and fade it out as gradually as possible.
- (h) A feeling that of all the alternatives none was fair, and this one was least unfair.
- (i) It is not repugnant to the idea of a Friendly Society that changes should be made in the benefits of members. The relation of member to Society is, in this respect, different from the relation of 'Assured' to Assurance Company.

There were a variety of facts in the background which made the continuance of the Society impracticable. The Union was itself very unhappy about its future. There was a threat of complete absorption by a larger union and the trade was one which had suffered by the war and for which the

prospects of revival looked—in June 1947—particularly poor. In an extreme case the Union seemed to think that it might very suddenly cease to exist and that the Superannuation Society would then have no properly constituted Management Committee.

Moreover, membership of the Superannuation Society was limited to and compulsory on all members of the Union. There was therefore no possibility of an expanding membership of the Society, apart from that of the Union, and the prospect of that seemed very remote indeed.

Once it was accepted that the Superannuation Society must be dissolved, the problem resolved itself into working out the necessary details. The Actuary was instructed to consult with the Registrar of Friendly Societies with a view to implementing the dissolution. Finally the Committee indicated that the more quickly it was done the better, as the rank and file of the Union were really insistent upon that course and were getting restive.

It is perhaps interesting to record that the Committee's rough idea of the proper division of the available funds was to give about half the assets to the pensioners and half to the contributors. That view was expressed by one member of the Committee and accepted by the others without any reference to actuarial values.

SCHEME OF RECONSTRUCTION AND DISSOLUTION

The Actuary, therefore, prepared a scheme of reconstruction and dissolution to form the basis of his consultations with the Registrar of Friendly Societies. It began with a general appreciation of the position in which the Society found itself, and outlined the historical background as far as it was known. It recited the salient actuarial and legal problems with the purpose of posing the problems rather than of providing a certainly correct solution. The first part was thus little more than a recitation of the facts as already described in this paper and no purpose is served in repeating it here.

It also recited the Society's dissolution rule which followed the usual form, namely:

'The Society may at any time be dissolved by the consent of five-sixths in value of the members, including honorary members if any, testified by their signatures to an Instrument of Dissolution in the form prescribed by the Treasury Regulations and also by the written consent of other persons for the time being receiving or entitled to receive any relief annuity or other benefits from the fund unless the claim of that person is first duly satisfied or adequate provision made for satisfying such claim.'

This rule follows almost verbatim section 78 (1) c of the Friendly Societies Act, 1896. It is this section that refers to the dissolution of a Registered Friendly Society by Instrument of Dissolution.

It was also recorded that at the general meeting of the members, which towards the end of 1946 had recommended 'the winding up of the Superannuation fund on the basis of the Actuary's report', the voting had been 213 for the resolution and 23 against it. At that meeting there were some 45 or 50 pensioners present.

Summing up his personal views, the Actuary said that, although he had at first favoured a drastic reconstruction with the object of nursing the Society back to a sound state financially, it seemed that all the circumstances were against that possibility. The conclusion seemed inescapable that there was no practicable alternative to the dissolution of the Society.

Turning to the basis of dissolution, the Actuary suggested that it would not be fair to dissolve the Society on the basis that the pensioners were provided for in full because such a basis would give all the assets to them and nothing whatever to anyone else—even to those who had contributed for many years and had actually attained an age and length of membership which entitled them to retire on pension. On that presumption the problem then resolved itself into one of working out a fair and reasonable basis on which a distribution might be made first between pensioners and contributors and then between individuals.

It was then suggested that the only possible approach would be to see on what terms a reconstruction might be possible and, having, as it were, reconstructed the Society, to proceed immediately to its dissolution, the reconstruction becoming but a technical phase of the whole operation. The basis for this suggestion was that if it were practicable to bring younger members into the Society then it would be preferable for the Society to be reconstructed and continued. That, in the interests of saving the Society, would have necessarily meant a considerable reduction in the pensioners' interests, but it would probably provide in the long run the greatest measure of justice all round. A dissolution on that basis had thus some claim to be the fairest—or at any rate the least unfair—of the many possibilities.

One complication which had to be considered was the increase of a shilling per week made in the contribution rate of the Society in 1939. Then all the contributors believed, and were encouraged to believe implicitly at any rate, that by paying the contributions on the higher basis all might one day expect to receive the pensions prescribed by the rules. It was not relevant to consider whether such an expectation was or was not reasonable in 1939. In the events as they had happened, the increase in the contribution had done nothing effective for the Society and had not assisted materially in ensuring the receipt of the prescribed benefits by those who had made the additional contributions. Moreover, the difficulties in which the Society found itself dated back to before the adoption of the higher rate of contribution.

It seemed reasonable, therefore, that all those members who had contributed the additional shilling per week should in any reconstruction receive additional benefits on that account. Since, however, the continued operation of the Society was not practicable, there was little purpose in preparing a scheme of such extra benefits, but it did seem reasonable to begin by reserving for such contributors an amount equal to what had been paid in by way of additional contributions at a rate of one shilling per week. This meant that the reconstruction should be based on a future weekly contribution of 1s. 3d. instead of 2s. 3d.

Since, almost without exception, the contributors had been members for many years, all of the 512 would have contributed the additional shilling for the whole period and the amount to be reserved on this account, to be refunded to them, would work out at approximately £11,100.

Proceeding further with the reconstruction, if the contributions are assumed to be 1s. 3d. per week in the future instead of 2s. 3d., then the value of future contributions will be reduced from £21,540 to £11,967, and, if the benefits for existing pensioners and future pensioners are reduced from a pension of 10s. a week to 4s. a week, then the value of future benefits will be reduced from £135,776 to £54,310. On this basis the amended valuation balance-sheet would take the form given on p. 46.

*The Dissolution of a Superannuation Society**Amended Valuation Balance-Sheet*

Liabilities		Assets	
	£		£
Value of benefits	54,310	Funds	44,013
Reserve—Additional 1s. per week	11,100	Value of future contributions	11,967
		Capital appreciation	600
		Deficiency	8,830
Total	65,410	Total	65,410

The value of future benefits would then be sub-divided as follows:

	Value
Existing pensioners	18,382
Contributors (entitled to retire immediately)	14,912
Contributors (others)	21,016
Total	54,310

There is still a deficiency of £8830 and even the reduction of the pensions from 10s. per week to 4s. per week has not placed the Society in a sound and fully solvent position when the excess contribution over 1s. 3d. per week paid to the Society since 1939 is first reserved for those who made the payments.

The valuation in this form is not perhaps exactly comparable with that based on the higher rate of contributions and benefits because the negative values would have been increased. They were not, however, investigated carefully as, the membership being compulsory, the option of lapsing was not available. Moreover, if they had been, and if allowance for the greater negative values were permitted to become effective in the reconstruction, it would have still further reduced the pensioners' share.

The view was expressed, however, that if a reconstruction were possible, and if the Society were continued as a going concern with a reasonable influx of new members, then on such a basis there was a good chance, but not a certainty, that the position would improve and that ultimately the Society would become solvent. In short, it was suggested that a reconstruction on these lines was the least drastic reconstruction that had a reasonable chance of success and that, as such, it was perhaps the basis most favourable to the pensioners on which the dissolution might fairly be based.

If it is assumed that the Society is to be first reconstructed in this way and then immediately dissolved, the assets would be divided amongst the classes of members according to the following scheme:

<i>Division of Funds</i>		
	£	£
Pensioners		18,382
Contributors:		
On account of the 1s.	11,100	
Balance of value	15,131	26,231
Total (available funds)		44,613

Within the broad classes the funds available for each class would then have to be divided as follows.

1. Pensioners would receive the value, calculated according to Central Counties Mortality and 3% interest, of a pension of 4s. per week.
2. The contributors would receive a refund of the amount which they had paid on account of the extra 1s. per week contribution under the 1939 amendment.
3. The balance of the funds would be divided between the contributors in whatever manner they might consider fair.

On this approach it is really the division under Group 3 of the residual funds which creates the difficulty. It must be realized that the great bulk of contributors have been members for many years. Their distribution by length of service is given in the following table:

Year of entry	Number
1919	203
20	1
21	4
22	37
23	140
26	2
28	2
29	63
30	6
31	27
32	4
33	19
34	2
35	1
36	1
Total	512

Moreover, many of them were already entitled under the rules to retire if they gave up active work, and others were only slightly younger.

The most obvious method of division would have been to divide the assets in proportion to the actuarial reserves computed on the valuation basis, that is to say, a gross premium prospective valuation reserve calculated by Central Counties Mortality at 3%. Such a basis is, of course, inherently unsatisfactory on actuarial grounds, because in so far as the premium valued departs from the appropriate pure premium on the valuation basis it tends to allocate, as a basis for the division, a large reserve to those who have paid too little and contributed less than they ought to the fund, and a small reserve to those who have paid too much and contributed more than they ought to the fund.

In some circumstances such a basis may be justified or may even be preferred to others, but in this case the effect would be to give nothing to the existing younger members, notwithstanding that they had contributed for many years, because during the whole of that time they would have been represented by negative values in the valuation. The older members about to retire would, on the other hand, have shared on a basis of the full value of their prospective

pensions with relatively little abatement. Such a basis would not readily be accepted by the bulk of members, and if it were adopted many of the younger ones would certainly feel that they had received much less than a fair deal.

The fact that some of the older contributors were entitled to retire on a pension from the Society if they gave up active work was of the greatest importance, and the Actuary would have liked to have provided for them the full value of their reduced pension under the reconstruction as though they were already pensioners. Unfortunately, however, there were so many of them, some 139, that it was a concession which could be made only as a matter of major policy and to have done so would have further restricted the share of the others to a serious extent.

The alternative was some form of retrospective valuation basing each member's share on what he had paid into the Society rather than upon the benefit to which one day he might be entitled. An approximation to such a value could be either the contributions paid, accumulated at 3% interest with or without the benefit of survival; or it could in the interests of simplicity be the contributions paid without interest. In either case, of course, the additional 1s. per week contribution would be reserved separately and earmarked to be returned. It would not be brought into the calculations.

The various possibilities were discussed and at this stage it was suggested, but not without reservations, that on the whole a division based upon the contributions accumulated at interest was probably the fairest simple method available.

There was, of course, the further alternative of a pure premium value but that was rejected for two reasons.

- (1) The theoretical reason, that the benefits and contributions were fixed and independent of the ages of entry so that the pure premium basis bore no similarity to the real facts of the case. It had consequently no real theoretical justification for being considered a fair basis of distribution, as it would be in a fund based upon actuarial premiums or contributions plus an expense loading. It was noted, however, that it eliminated the major inequity of a prospective gross premium method which left many members, who had contributed for many years, with a zero share, and that it graded everyone's value upwards from zero at entry to the full value at retirement.
- (2) The practical reason, that it is almost impossible to explain satisfactorily to the members of a Friendly Society what is meant by a pure premium valuation even when it is not so grossly out of relation to the facts.

Finally, it was noted that the method to be adopted for the division of the residual section was, in the last resort, the prerogative of the contributing members to determine.

The scheme then turned to questions of procedure and the following factors emerged:

- (a) It was very important to discontinue contributions as soon as possible because the contributors were very dissatisfied with the arrangements.
- (b) It was very desirable to cease paying pensions at a rate of 10s. per week as soon as possible because the Society was not in a position to afford such pensions even for a relatively short period.

- (c) It was very desirable to pay to the pensioners their share of the funds at the same time as the weekly payments were stopped (or reduced) in order to ease the transition for them.
- (d) There was always a risk of disintegration of the Union and that would create difficulties if the dissolution of the Society should not have become effective.

Note. The significance of specification (c) arises out of the procedure associated with the Instrument of Dissolution from which the Trustees of a Friendly Society cannot depart.

That procedure may be summarized as follows.

- (1) The Society decides in general meeting that it will dissolve and that from an appointed day the benefits and contributions shall cease.
- (2) Accounts in the same form as an Annual Return are prepared up to that day.
- (3) An Instrument of Dissolution in the form provided by the Registrar of Friendly Societies is prepared showing, in the words of the 1896 Act:
 - '(a) the liabilities and assets of the society in detail; and
 - (b) the number of members and the nature of their interests in the society...; and
 - (c) the claims of creditors (if any), and the provision to be made for their payment; and
 - (d) the intended appropriation or division of the funds and property of the society..., unless the appropriation or division is stated in the instrument of dissolution to be left to the award of the chief registrar.'
- (4) The Instrument is circulated for signature in duplicate by not less than five-sixths by value of the members. (Value refers to the voting strength of a member on the scale of one vote for every member plus one vote for every five years of membership with a maximum of five votes.)
- (5) The Instrument is lodged for registration accompanied by the prescribed statutory declaration that the provisions of the 1896 Act have been complied with.
- (6) The dissolution is advertised in the *London Gazette* and a paper circulating in the locality.
- (7) If, three months from the date of the advertisement in the *London Gazette*, no person has commenced proceedings to have the dissolution set aside, the dissolution is effective and the division of the funds proceeds.

It is clear therefore that, with all possible dispatch, there is a period which cannot be less than three months, and is usually considerably more, between the date at which benefits and contributions cease and the date when the actual cash is divided. It is this delay which it was sought to avoid for the sake of the pensioners who had been relying on the pensions.

It was observed that, the National Pensions having just been increased, it was possible, with the assistance of the Chief Registrar of Friendly Societies, to impose a reconstruction under the express powers contained in the National Insurance Act. It was true that the difficulties of the Society were not in any way related to the increase in the National Pensions but the increase remained a fact, and made any reconstruction or variation of the pensions a lesser hardship than it would otherwise have been. On the whole, however, the view was expressed that, although this might be a convenience, it was not exactly the purpose for which the powers in the National Insurance Act were provided.

Dissolution might of course be attempted according to the ordinary procedure, every pensioner as well as every contributor being asked to sign the Instrument. This would presumably have implied explaining it to all of them including the aged, and persuading them to wait the requisite period of not

less than three months until they could be paid their shares of the funds. It seemed fairly certain that this would be a slow and difficult procedure, and there was also the risk that even a few pensioners could hold up the whole transaction, causing considerable inconvenience to everyone and probably not, in the long run, benefiting themselves.

There was the alternative of first altering the rules to reduce the pension to 4s. per week and then proceeding to a dissolution in a more leisurely manner. This is a course which might be open to abuse, if applied unscrupulously by a majority to reduce the share of a minority, as, for a change of rules, a simple majority only is required. In the special circumstances of this case, however, it had certain advantages, and applied in the manner proposed it amounted only to a long overdue reduction of the benefits to a scale which the Society might reasonably hope to maintain.

At the same time as the rules were being altered, to reduce the pensions from 10s. to 4s. per week, another rule could be adopted offering the pensioners the option of a capital sum equal to that which they would be entitled to receive on dissolution. This had the particular advantage of enabling a pensioner, who was reasonably satisfied with the whole arrangement, to receive his capital sum at the very moment that his pension was either reduced or stopped (pending the dissolution proceedings). Moreover, as an option, there was no greater element of compulsion upon him than there was in the whole process of dissolution under these unfavourable conditions.

There was, of course, the further alternative of an award by the Registrar, but apart from the disadvantage that a fee of over £200 would, under the Treasury Regulations, be incurred, it was thought that he would prefer to avoid such action. Such an award would have had the great advantage of being an arrangement imposed from above by an independent authority charged with the duty of being as fair as possible. An award, moreover, would not be open to variation or to argument in detail. It was certainly an attractive alternative.

As a result of the scheme, a conference was held at the Registrar's Office, and it was decided after some discussion, and not without reservations, that the best course was a reconstruction reducing pensions to 4s. per week coupled with the granting of the option to a pensioner to receive immediately a capital sum in lieu of the reduced pension. The Society would then be put into dissolution in the normal way. At this stage it was thought most reasonable after reserving the £11,100 on account of the extra shilling to base the division of the residual funds on the contributions paid plus interest and it was decided to proceed on that basis.

FURTHER INFORMATION

In the course of working out the detail, however, it was noticed by the Registrar's staff that, although the increase in the weekly contribution from 1s. 3d. to 2s. 3d. per week was registered as an amendment of rules in 1939, the contribution had in fact been 2s. 3d. for some years previously under some informal arrangements adopted by the Society. Apparently it was in 1939 that the Registrar discovered the informal arrangements and exerted pressure to have the position regularized by the adoption of a proper amendment of the rules.

This discovery created considerable difficulty in the whole suggested basis of division, partly because it would have been necessary to reserve much

larger amounts on account of the extra shilling and partly because it became apparent that it would be very difficult to determine exactly how much ought to be reserved in each individual case under this heading. It was obviously going to be difficult to know exactly what had happened.

After some further consideration it was therefore decided that the basis as such had to be changed radically, and an alternative basis devised to replace it.

The basis finally adopted was really an arbitrary one. As before, the pensioners were to get the value of their 4s. pension, but the residue available for the contributors was to be divided, as to approximately one half by one scheme and as to the other half by another scheme. One half was to be divided in proportion to the number of years of membership of the Society and the other half was to be divided in proportion to the value, at the member's current age, of the benefits to which he was to become entitled on the assumption that he retired on pension at age 65, or immediately if already older. The actual tables to be used are shown later as part of a resolution for the General Meeting.

On reflection it was thought that perhaps this basis was as good as the others, if not better, notwithstanding that the immediate reason for its adoption was principally convenience. It provided recognition both for the period for which contributions had been made and for the gradual accrual of the value of the emerging benefits. It is, of course, to be remembered that practically all the members had contributed for many years. If that were not so, or as a more general basis of division, the scheme would not be successful. Perhaps the greatest virtue of the method lay in its expediency and its simplicity. Each member could see exactly what was happening, and in an extremely rough way could understand its basis.

As a result this course was recommended to the Committee of Management who adopted it, and a general meeting of the members was called to ratify it.

GENERAL MEETING

The agenda gave notice of the following three resolutions.

It is resolved that:

RESOLUTION I

The Rules be amended by deleting Rule 5 and substituting,

Rule 5: 'A Member who has reached the age of 60 years and is unable to continue his occupation shall be entitled to 4s. per week from the Society provided he has contributed for at least 20 years.

'Any member who shall have started to draw superannuation benefit before 25 July 1947 shall have the option, upon application to the Secretary, of receiving a capital sum calculated in terms of his year of birth according to the following Table A instead of any further payments of his superannuation benefit according to the rules as now amended, provided however that if, and whenever, the said capital sum is paid before 29 August 1947, there shall be added to the amount any unpaid instalments of pension due up to 29 August 1947.'

RESOLUTION II

The Society be dissolved as from 5 October 1947 from which day contributions and benefits shall cease and the Committee be instructed to proceed with the preparation of the proper instrument of dissolution as provided by the Friendly Societies Act, 1896 with the object of making the dissolution of the Society effective, and of distributing its assets, as quickly thereafter as possible.

RESOLUTION III

The assets of the Society at the time of dissolution be distributed according to the following scheme, or as near thereto as in the opinion of the Actuary the monies available will permit, that is to say:

- (i) Pensioners on 5 October 1947 (excluding pensioners who have already taken a capital sum as provided in Resolution I) shall receive the amount specified in Table A, less in each case the sum of £1.
- (ii) Contributors shall receive the total of the two amounts depending upon duration of membership and year of birth, as shown in Tables B and C respectively.

Table A

Year of birth	Capital sum	Year of birth	Capital sum
	£ s. d.		£ s. d.
1852	20 8 0	1872	62 16 0
53	22 2 0	73	66 4 0
54	23 16 0	74	69 16 0
55	25 10 0	75	73 12 0
56	27 4 0	76	77 8 0
57	28 18 0	77	81 8 0
58	30 12 0	78	85 10 0
59	32 6 0	79	89 12 0
60	34 0 0	80	93 16 0
61	35 16 0	81	98 2 0
62	37 12 0	82	102 8 0
63	39 12 0	83	106 14 0
64	41 14 0	84	111 2 0
65	43 18 0	85	115 10 0
66	46 4 0	86	119 18 0
67	48 14 0	87	124 6 0
68	51 4 0	88	128 14 0
69	53 18 0	89	133 2 0
70	56 14 0	90	137 10 0
71	59 12 0		

Table B

Year of entry	Capital sum	Year of entry	Capital sum
	£ s. d.		£ s. d.
1919	19 12 0	1929	12 12 0
20	18 18 0	30	11 18 0
21	18 4 0	31	11 4 0
22	17 10 0	32	10 10 0
23	16 16 0	33	9 16 0
24	16 2 0	34	9 2 0
25	15 8 0	35	8 8 0
26	14 14 0	36	7 14 0
27	14 0 0		
28	13 6 0		

The Meeting was attended by the Assistant Registrar of Friendly Societies and by the Actuary, and after a long discussion the resolutions were adopted practically unanimously and with fairly general satisfaction. There was perhaps a feeling that some of the younger pensioners were being too

Table C

Year of birth	Capital sum			Year of birth	Capital sum		
	£	s.	d.		£	s.	d.
1873	22	0	0	1893	24	12	0
74	23	4	0	94	23	18	0
75	24	10	0	95	23	4	0
76	25	16	0	96	22	10	0
77	27	2	0	97	21	16	0
78	28	10	0	98	21	4	0
79	29	18	0	99	20	12	0
80	31	6	0	1900	20	0	0
81	32	14	0	01	19	8	0
82	34	2	0	02	18	18	0
83	33	2	0	03	18	8	0
84	32	2	0	04	17	18	0
85	31	4	0	05	17	8	0
86	30	6	0	06	16	18	0
87	29	8	0	07	16	8	0
88	28	10	0	08	15	18	0
89	27	14	0	09	15	8	0
90	26	18	0	10	14	18	0
91	26	2	0	11	14	8	0
92	25	6	0	12	14	0	0

favourably treated, and there were complaints from a few members that their membership of the Society had always been a condition of membership of the Union. It was clear that that might have been a source of dissatisfaction in the past. It was explained, however, that not much could be done about the greater value of a pension to the younger pensioners, and that whether or not membership had been compulsory was entirely irrelevant to the merits of a basis of dissolution, when the overriding difficulty was an absence of sufficient funds to maintain the prescribed benefits.

THE ACTUAL DISSOLUTION

From that time on, progress was smooth. Every pensioner, with the exception of one, took his capital sum as soon as he could. The one pensioner was in an institution and according to the rules of the Society was not entitled to a pension while in the institution. The Society was in some difficulty to know what to do in his case, and in fact he died after the date of the Instrument and before the final distribution of the funds. After some consideration it was decided that his next-of-kin was not entitled to a share.

The division of the funds was complicated by the conversion, upon nationalization, of the Railway Stocks to British Government Stock, and by the erratic fluctuations in the price of the Transport Stock that was issued. In fact the realization was deferred for approximately two months while the stock recovered some of its loss. Subsequently it was realized on terms which were favourable compared to the price a few weeks later and the amount of money actually available for division came up to expectation, the final Tables B and C on which the shares were calculated being slightly greater than those adopted by the General Meeting.

CONCLUSION

The whole process in the case of this Society raised a number of special and interesting points and it is hoped that a full discussion of them may help to elucidate the issues more thoroughly. It is hoped too that alternative solutions will be forthcoming with which that adopted may be compared and contrasted.

It must be remembered that in a case such as this it is impossible to be fair. The best that can be hoped for is the least unfairness that circumstances will permit. It is quite useless to produce calculations which are too complicated to explain, or to attempt to get the reasonably willing agreement of the members of a Society unless they have in advance some idea of how their share will work out in relation to that of other members. In a Society with fewer members, or in a Society which is solvent and has more, rather than less, money to divide, this is not so important, but when there is already a reasonable basis for dissatisfaction, owing to the whole background of the Society's operations, it is vitally important to keep the issues before the members as simple and as clear as possible.

Perhaps the most vital controversial issues are:

- (a) What priority should be accorded the pensioners in the particular circumstances of this case—or more generally?
- (b) Whether an actuarial reserve is the proper basis for the division of the residual assets, and if so, what actuarial reserve?
- (c) If not, what is the proper basis, and by what test of fairness may it be judged? and
- (d) Whether the procedure of a reconstruction calling for an amendment of the rules reducing the pensions, followed by the Instrument of Dissolution, was justifiable in the special circumstances of this case?

So far as can be judged, looking back on the operation, the satisfaction given to the members was as much as could be expected in the face of circumstances so adverse. It is, of course, not possible to say whether an alternative procedure would have been more or less successful. It is felt, however, that the procedure was a good one, and that an alternative would need to be justified on its own greater merit rather than upon the demerit of what was actually done.

ABSTRACT OF THE DISCUSSION

The President (Sir George H. Maddex, K.B.E.) referred to the presence of Sir Bernard White, the Chief Registrar of Friendly Societies and Industrial Assurance Commissioner, to whom in the name of the Institute he offered congratulations on the Knighthood conferred upon him in the Honours List on 1 January 1949, and of Mr R. E. Grindle, an Assistant Registrar; he invited them to contribute to the discussion.

Mr C. A. Poyser, who opened the discussion, said that the paper presented the case history of a very interesting, though, he hoped, by no means typical, example of the problem which the actuary had to face in advising on the distribution of the assets of a friendly society on dissolution. In many ways the case set out in the paper was very special, but it was, nevertheless, useful in a general sense, in that it served as an illustration that the role which the actuary had to play in such circumstances was one calling for a judicious combination of common sense and actuarial theory.

Before embarking on any general discussion of the subject, it might be useful if he presented a few statistics regarding dissolution which he had been able to gather from the Annual Reports of the Registrar. For the four years 1933 to 1936 inclusive, the average annual number of ordinary friendly societies and branches dissolved was 45 out of a total number of over 20,000, or less than 0.25 %. On the basis of membership or of reserves held, the proportion would almost certainly be even smaller. Unfortunately, figures were not yet available for the post-war years so that it was not possible to assess at present the effect of the extension of compulsory insurance and the increase in the level of benefits now granted, but he did not believe that there would prove to be any appreciable acceleration in the movement towards dissolution.

It seemed from the figures just quoted that the experience of any particular actuary on this problem was bound to be limited. From his own very limited experience, he had gathered that the most frequent reason for a society dissolving was the falling away of membership until the time was reached when a mere handful remained; at the same time, it was often found that the society had ample funds to meet its liabilities, and the problem of the actuary was then the fair distribution of a surplus, a large part of which might have been carried forward from years gone by, when the number of members had been appreciably greater than the number remaining at the time of dissolution.

It might be agreed, perhaps with regret, that members of some friendly societies knew little and cared less about actuarial science, as the author remarked, but that should not lead the actuary to abandon his tools. The financial arrangements of a friendly society were based upon certain general principles of assurance, and, since the members would have joined the society voluntarily, except in comparatively rare cases, it was not unreasonable to assume that they knew something of the essence at least of the financial arrangements. He felt that it was not sufficient for the actuary to present his final recommendations; he should be prepared, if necessary, to explain in broad terms what he had done and the method which he had adopted in arriving at his results, so that the members might judge for themselves that the proposed basis of division was reasonable.

As a preliminary to the examination of the particular problem which was presented in the paper, he thought that it was essential to consider the causes of the lamentable financial position of the society in question, because some light might thus be thrown on the question of the equitable distribution of the available assets, and also because the examination might suggest means whereby the recurrence of a similar situation might be avoided.

Judging by the available data in the paper, the society seemed to have begun its operations in 1919 and, at that time, to have allowed members of the union to join at quite advanced ages. The oldest pensioner in 1947 was over 85 so that in 1919, 28 years earlier, he was at least 57 years of age. Assuming that the rule providing for a pension on retirement after 20 years of membership had been strictly enforced, such a member

would not have been entitled to a pension except on retirement after the age of 76. The society seemed to have started its operations with a large uncovered liability, which it was hoped would be met by the more than adequate contributions from the younger members and by later entrants. As the society was operated strictly for the benefit of the members of the union, and as membership was compulsory, there might have been some unwritten understanding in the beginning that the union would, if necessary, provide resources to meet the uncovered liability. It would be interesting to know whether the possibility was considered of securing assistance from the union on the society being dissolved, particularly in view of the suggestion that the union itself might go out of existence as a separate entity.

There was one feature of the society which had puzzled him, namely the level contribution charged. He could not understand how the society could be registered as an ordinary friendly society under the 1896 Act unless the scale of contributions for the annuity benefits had been certified by an actuary under section 16, and surely no actuary would have certified a level contribution for such a benefit. At one time, indeed, he had wondered whether the society was an ordinary friendly society subject to the 1896 Act or whether it was perhaps a trade union fund. He had recently met the case of a trade union fund not registered under the 1896 Act where, as part of the ordinary contribution levy to the union, the members paid a small level contribution in return for which the union promised a small level annuity on retirement. As in the present case, large uncovered liabilities were accepted at the commencement of that scheme. The stage had been reached where the damage had been done, and the union then began to suspect, far too late, that the liability might be getting out of hand. On the most cursory examination of the information available, it seemed that the aggregate liability for incumbent pensions alone was far in excess of the accumulated funds, and there was therefore a serious risk that the contributions paid by members not yet retired would be completely lost. The question naturally arose whether it would not be advisable—he made the suggestion with some reluctance—to extend the powers of the Registrar to cover the scrutiny of arrangements such as these, where sums were in effect being accumulated over a considerable period of years in order to provide benefits at some later date.

Before deciding on the details of a plan of division in a case such as was put forward in the paper, it was necessary to decide how far, if at all, special consideration should be given to existing pensioners. On voluntary dissolution it was necessary, according to the rules of the society (which followed closely section 78 of the Act), to obtain the written consent of every pensioner, unless the claim of that member was first duly satisfied. Neither the Act nor the Guide-book of the Registrar of Friendly Societies gave any guidance on the interpretation to be placed on the words 'duly satisfied', and it seemed that in the last resort the pensioner could appeal to the court to determine his share, if he was not satisfied. It would be interesting to learn, from those who were in a position to give information on the subject, whether a case had ever been taken to court, and, if so, whether the decision gave the annuitant the value of his benefit on the footing that he was entitled to complete priority, or whether the degree of solvency of the society was a factor which was to be brought into account. If there had been an official ruling to the effect that pensioners must be given priority, the stratagem of altering the benefits and then proceeding immediately to dissolution would hardly seem to be in the spirit of the Act as so interpreted. On the other hand, if there had been a ruling to the effect that the state of solvency of the society must be taken into account, the stratagem hardly seemed to be necessary. Even had the former interpretation been given, if the actuary thought that justice would not be secured under section 78 in the special circumstances of the case with which he had to deal, he could advise the society to apply for a dissolution by award under section 80, under which it seemed that a dissolution might be applied for if the society was in deficiency. This section appeared to give the Registrar a completely free hand.

With regard to the details of the division actually adopted in the extremely difficult circumstances of the case, it was easy enough to be critical but not nearly so easy to suggest practical alternatives. Even when account was taken of the higher rates of

interest ruling in the past, the oldest pensioners had already had, apparently, far too much, if indeed some of them were ever entitled to anything on a strict reading of the rules, and, since it was decided to approach the problem by cutting down the scale of benefits, there seemed little point in leaving a balance of deficiency uncovered. Such a course of action would be quite legitimate in the reorganization of a society with a view to its continued existence, having regard to the contributions which new entrants would pay and to other possible margins, but the effect of reducing the benefit to 4s., as was done in the present case, and of not removing the whole deficiency was in fact to give a larger share of the available funds to the pensioners than they would otherwise have received. Though quite inequitable on the facts of the case, it might be that the 4s. rate was fixed deliberately in order to give some degree of preferential treatment to the pensioners, perhaps in the spirit of section 78 of the 1896 Act if not in accordance with the strict letter of that section; or again, the actuary might have been influenced by the view expressed by the Committee that approximately half of the fund should be given to the pensioners, even though that view must have been arrived at quite arbitrarily.

The method of division actually adopted produced a very serious discrepancy between a member recently retired and one still in active service but eligible for benefit on immediate retirement. Such a discrepancy, which would surely be obvious to the members and give rise to serious criticism, seemed to be due to the imposition of an all-over cut in the benefit without regard to age or duration.

Before suggesting alternative schemes to the one put forward by the author, it might be useful at this stage to consider the general problem. In the first place, it was hardly possible to do more than indicate a few general guiding principles. Taking the more usual case of a society which was in surplus, he suggested that the prospective value of the basic contracts should first be satisfied, bringing into account the actual contributions payable in future, without any attempt to deal with inequities due to poor graduation of the contribution scale. The problem of the distribution of the residual surplus was one for which he felt that it was not possible to give any general rules; but it should not necessarily be divided in proportion to the individual liabilities in respect of the basic contracts, since those with relatively favourable contracts would presumably have contributed less than the average to the surplus. Possibly a scheme on fairly broad lines, bringing into account years of membership or contributions paid during the period over which the surplus had been accumulating, would give reasonably satisfactory results. In any case it would be desirable in practice to ensure that the recent entrants, those whose contracts might represent negative values, received some minimum return, such as a proportion of the contributions paid.

The more difficult problem arose when the society was in deficiency. The position would frequently be complicated by previous attempts made to remove the deficiency by adjustment of the benefits and contributions. He thought that the initial approach of the author to the problem as given in the paper would lead ultimately to a satisfactory solution, namely to examine the possibility of a scheme of reconstruction, using, however, a solvency rather than an ordinary valuation basis. In such a scheme the benefits of very recent entrants should not be adjusted, to his mind, much beyond the point of bringing them into line with the benefits which could be offered to new entrants, so that cessation and re-entry would not be profitable to them. The benefits of the other members would also have to be altered by an adjustment graded, he suggested, with age and duration. Such a graded adjustment could be achieved, for example, by first altering the benefits of all the members to those which, by and large, could be granted to new entrants, and by dividing the balance of liability to achieve equality with assets in proportion to the net liability on the adjusted contracts. He suggested that such a method would give practicable results and could also be backed by some theoretical justification.

Applying that suggestion to the particular problem presented in the paper and assuming, with the author, that it was desirable initially to reserve the extra 1s., it might be noticed, in the first place, that the benefit secured at age 30 (which seemed a reason-

able average entry age for existing contributors) was in close accord in value with the basic 1s. 3d. contribution. The available fund of some £44,000, less the £11,000 reserved for the extra 1s., or about £33,000, represented 27 % of the total adjusted net liability of £124,000, based on a 10s. benefit and a future contribution of 1s. 3d. On that basis the existing pensioners would receive together roughly £12,000, the balance of rather more than £30,000 going to the present contributors.

The actuary should never lose sight of the fact that he was dealing with a friendly society, an institution whose objects might include the relief of members in sickness and old age, and he might think it desirable to advise the members to temper justice with mercy. In the present case, he felt that the author had over-seasoned his scheme with rather too much mercy for a particular section.

Mr R. W. Abbott suggested that the actuary's search for equity was like the alchemist's search for the philosopher's stone which would turn base metal into gold. The search seemed just as eagerly pursued, and its object just as elusive. The author showed how difficult it was even to evolve a satisfactory definition of equity. The problems involved in attempting to apply in practice an agreed definition might well be insuperable. Luckily, in dealing with a practical problem such as the dissolution of a friendly society, the achievement of complete equity, even if it were possible, was less important than the preservation of an appearance of equity. In other words, the actuary had primarily to convince each member of the fund that he was obtaining a fair share of the assets available, and the only ultimate test of the success of an actuary in carrying through the dissolution of a friendly society was that his scheme of division, whatever might be its justification from the actuarial point of view, was acceptable to the members.

However much one might differ from the author's solution of the problem dealt with in the paper, the fact remained that the author's proposals were adopted almost unanimously, and with fairly general satisfaction. Considering how little cash there was available for members, the author's method was, by this test, completely vindicated; nevertheless, he (the speaker) had the feeling that proper justice was not done to the members of the superannuation society in question. Moreover, he felt that under the existing provisions of the Friendly Societies Act it was very difficult indeed to effect proper justice. The opener had referred to the rule dealing with dissolution which registered friendly societies had to adopt. It appeared that the effect of that rule was to weight the scales very heavily in favour of existing pensioners. It seemed that if any one pensioner liked to hold up the scheme of dissolution by insisting on the satisfaction in full of his benefit rights, then the whole scheme might be invalidated. In the circumstances of the fund in question, the exercise of that right would have been quite intolerable, and the author found a very neat way to circumvent the extreme effect of the provisions. But the letter of the law remained, and he thought that it influenced the author to treat the existing pensioners more favourably than in equity they should have been treated. The Friendly Societies Act was passed long before there was such a thing as National Insurance, and it was right and proper then, in the case of dissolutions, to protect existing beneficiaries, who might be completely dependent for their support on what they received from the society. That was not likely to be the position today, and he considered that the effect of the Act was to favour existing pensioners at the expense of contributing members and, particularly in the present case, at the expense of those entitled to retire, whose share was very much less merely because they had not yet retired. Equity in such conditions was clearly very difficult to achieve.

Suppose that for dissolution it was necessary to obtain only a bare majority of the members, coupled with the approval of the valuer and the consent of the Registrar. Then a simple method of division of the funds, which he found was usually understood by the members and regarded as being fair and reasonable, was to divide the assets according to the total contributions paid, accumulated with interest to the date of dissolution. The total pension payments made to existing pensioners would be deducted, with interest, from their accumulation, with the result that many existing pensioners would receive nothing at all. That method of division recognized that in the past it was the pensioners exclusively who had benefited from the society, and attempted to redress the balance

by making a return to members in proportion to what they had contributed less what they had received. By that method the actuary, without going so far as to deal with the spirits of the departed, sought to render the society void *ab initio*.

He found it illuminating and instructive to follow the development of the author's thought towards the basis of division finally adopted by him. At one stage the author proposed to return in full the extra contributions of 1s. per week made by contributory members since 1939. Personally, he regarded that suggestion as quite inadmissible. Granted that the purpose for which those extra subscriptions were paid was not realized, he thought that in that respect the extra 1s. per week did not differ from the rest of the contribution, and that it was wrong to return part of the contribution on that account.

The paper raised the general problem of the advisability of recommending reconstruction as an alternative to dissolution in the case of an insolvent society. It was a temptation to the actuary to prolong the life of the society so long as any hope for its survival existed, but in one or two cases which he had seen, reconstruction, where there was a large deficiency, had only deferred the date of dissolution, and when the society had ultimately to be dissolved it was usually much harder to find a fair basis of division. Furthermore, after reconstruction it became difficult to recruit new members, and there seemed some dubiety about the ethics of attracting new members to a society whose financial state was perilous. Like a man who had begun to tread the primrose way to the everlasting bonfire, a society which had slipped into grave insolvency could be rescued only with great difficulty, and sometimes not at all.

Sir Bernard White, Chief Registrar of Friendly Societies and Industrial Assurance Commissioner (a visitor), thanked the President for his congratulations and said that Mr Grindle would take part in the discussion.

Mr R. E. Grindle, Assistant Registrar of Friendly Societies (a visitor), said that there were only two points on which he wished to comment. The first of these was the statement in the introduction to the paper that the members of the society were not interested in fine distinctions, legal or arithmetical, but that they did preserve a very heartening sense of broad justice. He had gone with the author to the final meeting of the society in question where the scheme was discussed and agreed, and could fully support what the author said in that respect. The members were certainly not prepared to swallow what was put before them without question; they wanted to know the arguments for the scheme and to be satisfied that it accorded with their ideas of what was just, and to know what other courses were open to them. Having satisfied themselves on those points, they voted unanimously in favour of the scheme.

The author described the scheme which was adopted as arbitrary. From an actuarial standpoint that might be correct, but one point which the paper brought out was the need for any scheme to be acceptable to the members and to be understood by them. After all, on a voluntary dissolution it was necessary to get the agreement of five-sixths in value of the members, and that was an overwhelming majority. The author's scheme was one which could be understood; it appealed to him personally as a layman because he could understand it, and the reasons behind the working of it seemed to be fair and reasonable. He thought that it appealed to the members of the society for the same reason; they saw it as a sort of 'points' scheme in which they got so many points for age and so many for length of membership, and that took them into a very familiar world, where nobody had as many points as he wanted.

The other subject raised by the paper, and referred to by the opener, was that of the law applicable to the dissolution of societies. That question turned on the interpretation of section 78 of the Friendly Societies Act, of which the material words were quoted by the author in the paper in the form of a quotation from the society's rules. The Act laid down that the consent of every person receiving or entitled to receive any benefits from the fund was required, 'unless the claim of that person is first duly satisfied'. There were two possible views as to what that 'claim' might mean. On one view it meant not only the claim to present benefit, but the claim to the benefit which might be expected to be

received in the future. The other and narrower view, which the Registrar took, was that it meant no more than 'his present claim to benefit', the benefit already due to him, which he could enforce if necessary by appropriate action.

The wider view seemed to the Registrar to lead to absurdities, injustices and even impossibilities. Had it been right, it would have been necessary, in the case dealt with by the author, to give everything to the incumbents. The man who did not happen to be on the fund at the time of dissolution, the man who had not yet reached pension age or, having reached it, had not yet given up work, would have got nothing at all. That seemed to the Registry officials to be quite beyond common sense and justice, and they did not believe that that was what Parliament intended; they thought that the word 'claim' had the ordinary, common-sense meaning of a claim which was enforceable.

The wider view seemed to involve almost insuperable legal difficulty. After all, what was a man's claim in law to a future benefit from a friendly society? The actuarial value of the claim, of course, was calculated on the assumption that benefit would continue to be paid at the current rate, but the only claim which a man had in law was to be paid such benefit as the rules might provide from time to time, and the rules were always subject to amendment. What became of a man's claim to payment of benefit of 10s. a week in 1952 if the rules by that time had been amended and had modified the rate of benefit?

The opener had raised the question why the society was registered without its tables being certified by an actuary. He could not state with certainty what the reason was; the society was registered in 1920, and the papers relating to its registration had been destroyed. He could only deduce the reason from later correspondence. The reason seemed to be that it was not regarded as insuring a 'certain annuity' (which the Registrar interprets as an annuity certain both in amount and in nature). Section 16 of the Friendly Societies Act provided that a society insuring a 'certain annuity' must have its tables certified by an actuary. The society in question insured an annuity at age 60 only if the member had then ceased work.

Mr G. D. Stockman said that Mr Grindle's remarks would be very helpful to any actuary who had to deal with a dissolution, as the provisions of section 78 of the Act of 1896 had always been open to a certain amount of argument. He did not think that they had ever been legally argued or judicially decided, and that was the difficulty which had faced most actuaries in the past. After Mr Grindle's remarks, most actuaries would feel much happier in doing things which might have troubled their consciences a little had they looked too literally at the words of the Friendly Societies Act.

In the Conclusion to his paper, the author set out in the form of questions what he regarded as the four most controversial issues. He (the speaker) would not try to supply the answers, but only to mention some considerations which had occurred to him on reading what was a very interesting paper. He intended to confine himself to the case of a society where the assets were insufficient to meet the liabilities. Where a society had a surplus, very different considerations arose.

A dissolution was not amenable to hard-and-fast, uniform treatment. Each one that he had seen had presented special features which had had to be considered on their merits. He thought that one reason for those differences was the varying motives which prompted people to join a friendly society. At the one extreme there was the person who joined with no real intention of drawing benefits at all, but rather with the idea of helping other people, while at the other extreme there were people—and they did exist in friendly societies—who came in with just the same sort of motive as a person who effected an insurance with a commercial insurance company.

As there were some people of the latter type, he thought that perhaps it was useful to look at what happened in an insurance company in the case of winding up. It was laid down in the Sixth Schedule to the Assurance Companies Act, 1909, how the claims of various policyholders were to be valued. It was noteworthy that in those rules no more favourable treatment was given to people with benefits in payment, such as annuitants, than to policyholders whose benefits were prospective only. Another point which was interesting, having regard to the controversies which had taken place over

and over again about the net premium valuation, was that the Sixth Schedule laid down that so far as the prospective benefits were concerned the claim of the policyholder was to be determined on the basis of the net premium reserve. Having so determined the claims both of the people in receipt of benefit and of those prospectively entitled to benefit, if the assets were then insufficient to provide for all those claims in full, the claims were rated down in proportion.

From that he thought that two things were fairly clear. One was that people with benefits in payment must not be treated too generously at the expense of those who had only prospective benefits. The second was that, much as it had been maligned, there was still something to be said for a net premium valuation.

Mr Grindle had already dealt with the interpretation of section 78. Personally, he felt that the author's difficulties, or his initial difficulties at any rate, arose from the fact that he had taken it for granted that section 78 meant that the incumbent pensioners must be satisfied before anything else could be done.

There was one point of interest in the paper on which so far no comment had been made. It was stated that the dissolution rule of the society followed almost verbatim the wording of section 78. It seemed to him, however, that there was a very important difference, because the rule referred to the written consent of 'other persons', whereas section 78 of the Friendly Societies Act referred to the written consent of 'every person'. As he saw it, 'other persons' would be persons other than members, whereas 'every person' would include members as well. If he were right, the interpretation of that clause as quoted in the paper would be very different from the strict interpretation which some had applied to section 78, because when the words 'other persons' were used there might be some justification for protecting the interests of those who had no say in what was going to happen in the winding up, whereas members had their own remedies in regard to what was done on winding up.

Mr Grindle had pointed out that the provisions of section 78 were sufficiently elastic to permit their interpretation in the light of equitable considerations, and it seemed to him that even in the case of the society in question a simpler basis for assessing the claims of members might have been to value the incumbent benefits and to take out the net premium reserve as regards the members whose benefits had not yet come into payment. A net premium method might be open to various criticisms, but in practice it was very often found that it produced more reasonable results than having regard to the actual premiums which were payable, the reason being that the result which was obtained by having regard to the actual premiums payable differed very materially according to whether the position was looked at retrospectively or prospectively.

The author seemed to suggest that it would be difficult to explain the net premium method to the members. He did not altogether agree with that; it seemed to him that it would not be too difficult to explain to members how their stakes in the fund had been assessed, and that, as the assets were insufficient to pay those stakes in full, they had been rated down. If members objected on the ground that that paid no regard to the fact that they were all paying uniform rates of premium, the answer was that it was a friendly society, and some part of a member's contribution in any event must be regarded as a benefit to the other members of the society rather than to himself. The difference between the actual premiums paid and the net premiums which were brought into the valuation could be regarded as a contribution to, or subvention from, a common fund.

There was another reason which he thought justified the use of what might be called an arbitrary method, and that was that the assets of the society reflected the benefits and contributions which had been paid to and received from former members who were no longer there at the time of dissolution. It seemed to him to be a little difficult to contend, adopting what had been seen to be the wrong interpretation of section 78, that because persons who were no longer members had been treated too generously incumbent beneficiaries should be protected from the consequences at the expense of existing contributors, who, after all, had received nothing out of the funds at all.

Another point which struck him on reading the paper was the question how far the practice could be justified of charging to new entrants premiums in excess of the value

of the benefits which they could expect to receive. When dealing with a badly insolvent society, there could be no justification at all; but where a society was very nearly solvent he thought that a new entrant could be expected to pay something for coming into a going concern, provided that the sum which he was asked to pay was a reasonable one. In a case such as that under consideration, where the membership was compulsory, it seemed to him even more important to treat the new entrants fairly. On the other hand, if a man came in at his own option he might do so for a very special reason, not minding at all that he paid contributions far in excess of the value of any benefits that he might expect to receive.

A point about which he felt considerable difficulty in reading the paper was the procedure adopted of amending the rules in advance of the dissolution. He thought that in the particular case it was probably justified, but it seemed to him that, before adopting that procedure, it would be necessary to be satisfied that the procedure did not amount to giving a particular class of member more than a fair share of the assets available and then paying out that class of member in advance of the remainder, for the funds available at the time of the actual distribution might prove to be less than had been expected.

Mr H. F. Fisher said there would be general agreement that there was no absolute solution in equity to the problem under discussion, and members would congratulate or commiserate with the author on the degree of agreement which he had obtained for his arbitrary solution. They would all feel, probably, that in receiving the full commuted value of 40 % of their contractual benefits, most of the pensioners were probably getting more than their fair share. At the same time, it was necessary to have regard to the circumstances of the dissolution and, when it had been agreed what should be given to the pensioners, it was important to see that the other members received their proper and equitable share, as far as it was possible to do so.

The author, in his basis for valuation, had taken an interest rate of 3 % as the rate which he expected the fund could have earned in the future; but he mentioned that it had earned 4 % over the previous 5 years, and it seemed very probable that the fund had earned at least 4 % over the whole time since 1919. In those circumstances it would appear that the shares allotted to the earlier entrants might not be altogether equitable.

In order to test that idea, he looked at the cases of men now aged 60 who had entered in various years. A man aged 60 who entered in 1919 would have been 33 on entry, and on the basis agreed would receive over £49. A man entering in 1929, 10 years later, would receive nearly £43, and a man entering in 1933 would receive just over £40. It seemed to him that those figures were rather too close to be fair. He had tried to see by a retrospective method what those particular individuals would have purchased in the way of pension from their actual contributions by an annual money-purchase method. As a basis, he adopted 4 % as the rate of interest earned over the whole life of the fund, and he assumed a mortality higher than the Central Counties, namely the English Life No. 9; the mortality did not make as much difference as the higher rate of interest. He also made the assumption, which seemed to be justified from the paper, that the extra 1s. had been paid by all members since 1935. He then came to the conclusion that the member who entered in 1919 would have purchased a total pension, commencing at age 60 quite irrespective of whether he was entitled to retire or not, of £24 per annum. The man who entered in 1929 would have purchased a total pension of nearly £14, and the man who entered in 1933 a pension of nearly £11 per annum. The commuted values of these pensions were £246 for the entrant in 1919, £142 for the entrant in 1929, and £112 for the entrant in 1933. Those figures, of course, were not absolute, they were estimates. The mortality and the interest might have varied considerably. They were, however, a yardstick against which to measure the shares allotted. Taking the actual shares allotted against the values of those pensions purchased, he came to the conclusion that the 1919 member was receiving 20 % of his value, the 1929 member 30 % and the 1933 member 36 %, and that, incidentally, was quite apart from the fact that the 1929 and 1933 members, who received a larger percentage, had not completed the twenty years

which would entitle them to draw the pension. It seemed to him, therefore, that the earlier entrants were not getting their fair share.

He had tried to see how far that conclusion would apply to other ages. It was difficult to do so in the absence of full data, but the same conclusion appeared to apply also to younger men. A man entering at age 20 in 1919 seemed to get a very poor return compared with the man who entered at age 32 in 1931. He felt that this point was one where some regard should be had to equity, notwithstanding the fact that there must obviously be an agreed basis, and in the case in question the basis proposed had been accepted.

The other point which occurred to him was one which had already been raised by the members themselves, namely that the younger pensioners were getting rather generous shares. Some of the men who were almost entitled to retire were suffering, whilst others who had just retired were getting a good return. That too might have been due to the fact that the author commuted those pensions on Central Counties mortality and 3 %, whereas he would have been justified in using a slightly higher mortality and perhaps a slightly higher rate of interest for the younger pensioners.

Mr J. P. Holbrook remarked that one of the principal difficulties in a dissolution was the fact that the share of the member could be looked upon from two completely different points of view. It could be thought of, in the first place, as a share which compensated him, so far as was possible, for the contract which he had lost through the dissolution of the society. That suggested that the matter should be approached with the prospective reserves in mind. Alternatively, it might be thought proper to look at the matter retrospectively, and to base the member's share on the actual contributions which he had paid to the society. Whichever view were adopted it would be impossible to follow the same principles consistently throughout. The prospective approach would be unsuitable at the shorter durations owing to the fact that the contribution scale was inequitable, and in general those members who had most over-paid would be penalized; similarly, the retrospective approach could not be applied consistently because of the difficulty in the case of the pensioners who had received far more than the contributions which they had paid.

He would emphasize a point made by earlier speakers: whatever the theoretical view, it must be tempered by the fact that the scheme of dissolution had to be acceptable to the members. It was desirable, therefore, to begin by considering what sort of standards the members themselves would adopt. The newer members would probably think in terms of the contributions that they had paid, particularly as membership of the society had been compulsory, and would not be so concerned with the idea of mutual insurance which was perhaps more general in voluntary societies. At the other end of the scale, the pensioners would be more inclined to look forward, and it might be difficult to justify different shares for pensioners of the same age. It seemed, therefore, if his arguments were accepted so far, that the difficulty was a purely technical one—that of proceeding from the retrospective view for members of shorter durations to the prospective view for pensioners and older contributors. In order to overcome the difficulty a function was needed which would satisfy the following necessary conditions—it must be continuous, it must start at 0 for duration 0 and increase with the duration, and it must increase also with age up to the pension age and diminish afterwards. Evidently there were many such functions; one which would immediately suggest itself was the net premium reserve. This function had, however, the disadvantage that at the shorter durations it would give rise to fairly large differences in the shares of members who entered at different ages—a feature which might be undesirable in the case under consideration in view of the compulsory membership.

He suggested that a possible method would be to compute two scales, as follows:

Scale A. The net premium reserves.

Scale B. The retrospective gross premium reserves. (It would probably be sufficiently accurate to take the accumulated contributions.)

The two scales would then be blended by continuously varying factors r and s , so that the final scale would be $Ar + Bs$. By making $r = 0$ at duration 0, the values at the short

durations would be closely related to the accumulated past contributions; by making $s=0$ at pension age the prospective reserves would be obtained. It was not necessary that $r+s$ should equal 1, since the final scale would only show the relative shares—the ultimate cash shares being a constant proportion of the scale values. Pivotal values of r and s could be obtained by trial and error, once it had been decided roughly what proportion of the accumulated past contributions should be returned to the recent entrants, and what proportion of the full pension values should be returned to the pensioners, having regard to the extent to which the various groups of members had contributed to the deficiency.

That might sound rather complicated, but it need not be explained in full detail to the members; it should be possible to obtain a practical approximation in a form which the members could understand, based on a system of points for age and duration. What was fundamentally important was to get the scale consistent from age to age and from duration to duration.

Mr R. E. Underwood said that pension funds which were not friendly societies but which were registered under the Superannuation and other Trust Funds (Validation) Act, 1927, had to have a clause in their rules laying down the method by which a dissolution was to be effected. So far as his experience went, the usual clause provided that pensioners should first of all be provided for in full and the rest of the money should then be divided between the remaining members in accordance with value. There seemed to be general agreement in the discussion that that was not right, and yet so far as his experience went that was the clause that was usually inserted. It was only necessary to consider such a case as that described in the paper, where there was not even enough money to provide pensions for the existing pensioners, to show what inequity could arise, though, of course, it was not usually in such a high degree.

Where the contributions were constructed on an actuarial basis there was not much difficulty in providing a rule, such as making the pensioners and all the other members prove in bankruptcy for the amount of their rights and dividing the fund proportionately. The usual rule would be that the pensioners took the lot, if necessary. Where the contributions were not on an actuarial basis, it seemed to him that it was like many other problems in actuarial science; once a departure was made from pure actuarial theory, there was no longer any proper solution. The author's solution was probably as good as any other which could be supplied in the circumstances laid down.

Mr V. A. Burrows thought there would be general agreement at that stage of the discussion that the interesting problem which had been brought forward by the author was not one which was capable of a completely satisfactory solution. Many other schemes might be devised, but, even if one could be found which was perfectly satisfactory for the particular problem in question, it was unlikely that it would be equally suitable for the other cases of dissolution.

He did not want, however, to add to the number of possible solutions, but rather to refer to another matter which arose in connexion with the paper, and to ask what was the true relationship of the actuary to his client. To what extent was there an obligation on the part of the actuary to be willing to expound what he had done so that the ordinary, non-technical layman could enter into the essential nature of the actuary's job? Was that part of the task of the actuary? He himself thought that it was. If a Gallup poll were to be taken of the members of the Institute it would probably be found that actuaries could be divided into (i) those who took the view that an actuarial report was essentially a technical document, which should be submitted for acceptance (or rejection) but not for any extensive discussion; and (ii) those who felt that the actuary should welcome discussion which enabled him to elucidate the underlying principles of his report. The consulting actuary (particularly if he was concerned to any extent with friendly societies) would almost certainly be included in the second group. His work would tend to bring him into much closer contact with his clients. He would often need to meet committees of management of friendly societies and should be prepared to expound the nature of his work; he might even have to face large conferences of perhaps several hundred delegates.

If he made a report to them, he would have to listen while his report was discussed by men who had no technical knowledge of actuarial work.

It might be thought at first sight that that was a very dangerous procedure, but experience had shown that it was not at all dangerous; in fact it was a valuable procedure and had resulted in the education of the leaders of the friendly society world, and this in turn had had marked effects upon the financial strength of the societies concerned. He did not therefore agree that on the whole friendly societies were being administered by men who had very little actuarial knowledge and who cared less about it; on the contrary, they frequently had a very intelligent understanding of the work of the actuary. That was because the actuaries advising them had taken the view that their job was not finished until they had made clear to those who had to make the decisions the essential nature of the actuarial advice being offered.

The actuary was not merely an expert whose *ipse dixit* must be accepted without question; he was one who had certain specialized knowledge and it was his job to put that specialized knowledge at the disposal of those who had to make the decisions. It was not the function of the actuary to make the decisions; that was the responsibility of the governing body concerned, but it was for the actuary to see that such decisions were intelligently made. The principle was very important, in view of the fact that we had moved into an era in which expert knowledge was being increasingly called upon and such knowledge was, moreover, becoming increasingly differentiated. He felt strongly that it was part of the job of the actuary to be prepared to do all in his power, by way of exposition, to secure that the people who had to make the decisions knew what they were doing. The expert should be on tap, not on top.

Mr H. Hosking Tayler, in closing the discussion, said that the author mentioned as the first among the controversial issues raised by the paper the question what priority should be given to the pensioners. Those who had heard it would carry away from the discussion the feeling that the most important contribution to it had been made by Mr Grindle, in giving the view of the Registrar on this important and difficult question. Apparently Mr Grindle quite definitely took the view that the Act meant to give the special rights to persons in receipt of relief only in respect of what might be called payments accrued due at the time of dissolution. What would be the position of a person receiving an apportionable life annuity on which no further payment had accrued due at the date of dissolution? Was he a person whose consent was necessary?

In the Student's Society discussion on *Problems arising on the dissolution of friendly societies—a consideration of basic valuation principles* by C. E. Clarke (*J.S.S.* Vol. VI, Pt. 4, pp. 157–171), the Chief Registrar, Sir Bernard White, was present and took part in the discussion, and very helpfully pointed out that the special rights accorded to persons in receipt of relief had their origin as far back as 1793, in the early Friendly Societies Act, and that the words there employed were ‘then receiving or then entitled to receive’, seeming to give some special emphasis to the moment of time. The very date of that Act was at any rate a warning against attempting to interpret the principles adopted as an actuarial basis for the distribution of the assets.

The historical view also, he thought, pointed to the conclusion that the law was not directed primarily towards securing an equitable distribution of the assets available, but towards making it difficult to divert to other purposes funds which had been accumulated for the constitutional purposes of a society. The Act of 1793 appeared to give an absolute power of veto to every person in receipt of relief, and had such power really been unqualified these persons would have been in a position to drive a very hard bargain. But their power was not unqualified. The rules of most societies included provisions permitting the amendment of the rules and members in receipt of relief, no less than others, would be bound by any amendment which was properly within the society's powers. The position was therefore that although any person in receipt of relief could veto a dissolution, he had no power to veto an alteration of his benefits by amendment of the rules.

A case could, he thought, be made for the contention that the person in receipt of relief should and if necessary could be made to view the satisfaction of his claim in the

light of the society's powers to alter his benefits by amendment of the rules. If this contention were sound, it would seem that the person in receipt of relief could not effectively or justly insist on a purely prospective valuation of his claim, if on a retrospective valuation his reserve would be inadequate for the purpose. On the other hand, the remaining members might not be able effectively to insist on a purely retrospective valuation for determining the shares of all, for under the 1896 Act the persons in receipt of relief could express dissatisfaction and apply to have the matter determined by the County Court.

Here, if there were no other difficulties, he thought it might be suggested that the benefits and contributions of all members, including those in receipt of relief, should be valued both prospectively and retrospectively, substituting zero for negative values. If the aggregates of the prospective and retrospective reserves could be taken in some proportions which would reproduce the sum available for distribution, the share of each member could be taken as the same proportions of his retrospective and prospective reserves. If the aggregates could not be so taken, that is to say if both were less or both were greater than the sum for distribution, the share of each member might be taken as the mean of his retrospective and prospective reserves, proportionately scaled up or down to reproduce the sum for distribution.

In attempting to apply that method, however, it would have to be decided whether, in calculating the prospective reserves, the state of health of an individual member should be taken into account, and whether, in calculating retrospective reserves, the actual benefits received by the member were to be taken into account, or only the average benefits receivable on the valuation assumptions. Those questions were perhaps more obtrusive in the case of a society granting sickness and death benefits than in the case of one granting annuity benefits only. What the actuary would not care to do was to take account of those questions in the case only of persons in receipt of relief. An extreme instance of the inequity which might arise from so doing would be the case of a member permanently sick but temporarily out of benefit, by the operation of a cyclical non-benefit period rule.

That brought him to mention briefly a question on which many of the speakers had touched and which the author himself advanced as one of the controversial issues, namely whether the procedure of reconstruction by amendment of the rules, followed immediately by dissolution, was justified. It avoided the wait between the cessation of annuity and the distribution of assets to the annuitants, but beyond this, it did not appear to have been necessary. The effect of Mr Grindle's interpretation of the 1896 Act seemed to be that there would have been no impediment to incorporating the scheme of distribution in the Instrument of Dissolution without interposing the amendment of rules.

The paper brought out very pleasingly the desire and willingness of the Registrar to be helpful, even to the extent of discovering that the payment of a capital sum in commutation of an annuity was encompassed by the permitted objects of a friendly society.

The President moved a vote of thanks to the author, who had, he said, a right to be pleased with the result of submitting the paper. The discussion had been full and varied, and approached the subject from many angles. The paper was useful in giving details of the sort of case in which too often the actuary, and the actuarial student, had to plead lack of practical experience. One of the most attractive features about it was the author's frank explanation of the way in which, by a rather devious route, he had eventually obtained a solution—one which worked even if it did not satisfy the ideas of all members as to equity or justice.

His own view was that it was not possible to say much about equity in the case in question. In most of these dissolution problems there was a mixture of legal and actuarial and equitable considerations to be brought into focus, and each man's solution would be slightly different according to the character of his own eyesight. It was not as if such cases followed standard types of rules; the rules, the scales (if there were scales) of contributions, the benefits and in the case being considered the 'pre-history' of the

society were such that a balance in the funds might, to a substantial extent, be regarded as in the nature of a windfall—more probably it would be a negative windfall!—and this, he thought, was a point which might have been brought out more in the discussion. How the demands of 'strict justice' were to be satisfied in such circumstances he really did not know. He would be interested, however, to learn how the author satisfied some of his clients that it was entirely fair that a man of, say, age 60 who had just gone on pension should get about three times as much out of the funds as a man of 60 who was just about to retire; even at age 65 the one value was not far short of three times the other. 'That, he thought, must have been a triumph of persuasion.

Mr R. C. B. Lane, in reply, expressed his thanks for the way in which the paper had been received. The discussion, he said, had been very well worth while, and had brought out many points. If the same sort of case were to come up again, he would certainly turn to the remarks which had been made that evening and pay regard to them.

He agreed with the opener that the case was not typical; a much more typical case was that of a small friendly society with decreasing numbers and increasing funds, and that was much less troublesome to handle.

The meaning of the word 'claim' was vital to the whole question, and he pleaded guilty to starting out by reading the Friendly Societies Act to mean that the annuitant was entitled to full priority. He had moved away from that view only very gradually, and that explained to some extent why he did nothing about the younger pensioners; he felt that he had already scaled down their shares a great deal more than the Act really permitted. It was helpful that there were not many young pensioners. The trouble about those about to go on pension was that there were so many of them.

On the question whether 4 % or 3 % interest should be used, he said that a very large part of the fund was in the form of railway preference and similar stocks. At the time they were being nationalized and were converted into 3 % Government stock at about par. That was one of the problems which came up in the later stages.

The idea of altering the rules probably first came into his mind because of his original misconception of the meaning of the Friendly Societies Act, but the decisive reason why that method was actually adopted was that it gave the pensioners their money promptly. They were entitled to receive it within a month, or at any rate within two months, of the general meeting being held, and they all took it. The other members had to wait eight or nine months before getting it. The reasons for the delay were partly the three months' waiting period and delays in getting out the accounts, and partly the doubt whether to hold on to the converted Railway Stock a little longer. They did make a little more money by doing so; they sold at about 98 instead of 96. It was suggested that the pensioners should not have got their money earlier, but it must be remembered that they were people with small incomes and it would have been a great hardship to them to lose their pensions but for the fact that national pensions had been increased. When dealing with people of that type, it is very important to give them their money at once instead of saying 'We are sorry, we shall have to take your pension away, but at some time in the future—we do not quite know when—you will get a nice little capital sum.'

He agreed with Mr Burrows that education of the client helped tremendously. It was surprising how much even quite uneducated working-class people in a friendly society could come to understand about its workings. That was something which would continue. His own general statement was intended to mean that the people concerned in this case did not in fact care about the technicalities; they had had enough of them, and made that quite plain to him in the early stages. At the meeting, one of the lighter moments was when a member rose and, in quite broad language, asked 'What has the actuary been doing all this time to let us get into such a mess?' He felt that that was a little hard because he had not been asked to advise the society before that time. He could not discover a great deal about the earlier history, but so far as he could learn it was only when the members found themselves in a mess that they thought of bringing in an actuary and paying attention to his advice.

To some extent that was the psychology of many of the members of these small societies. They said: 'Our funds keep on going up; our contributions are greater than

our sickness payments, so it is all right.' If one year the tendency was a little the other way, they began to think of coming to see an actuary, but the following year the contributions went up or the sickness went down, and they said: 'No, we are doing all right again now.' He could think of one very large fund, not a friendly society, where that was exactly what was happening, and he knew perfectly well that one day they would find that there was a very serious deficiency. If actuarial advice could be given to such people they would gradually learn a good deal about their funds, but it was the gradual process of deficiency accumulation which caused the trouble.

With regard to reconstruction, he had felt, as the opener had assumed, that if the society were to be continued it was allowable to have a deficiency of that general magnitude and to work it off over a period. Moreover, he felt that the pensioners deserved, if not priority, at least very liberal treatment. Having now obtained a clear definition of the meaning of the word 'claim' in the Act, and finding that it was to be interpreted in the narrower sense, he was not sure that it did not present the actuary with more difficult problems for solution than before, when the meaning of the word was obscure and perhaps misunderstood. At least it must be felt that a society of the kind in question, whatever its history, and whether its membership was obtained by compulsion or voluntarily, had as its primary reason for existence the provision of pensions; and that those who depended on their pensions must be given some sort of priority, even if such priority were not legally necessary. That priority could not be complete, because that would lead to absurdities; but he was not quite sure how far one should go under the definition given that night, and the position might therefore be even more difficult than before.

He thought that the great virtue of the net premium and the 'blending' methods lay entirely in the fact that they promised continuous functions starting at zero and ending at full value. He believed that was their principal attraction, and that was why the net premium basis gave results which were more sensible. Any sort of continuous process of that kind might, therefore, lead to results which looked no less, or hardly less, sensible.

If tables such as Tables A, B and C of the paper were put before the members in the notice convening the meeting, each individual member would be enabled to find out what he would get, and, what was more, to find out what his friends would get. It was then fairly easy for him to weigh the matter up. On the other hand, with an individual value basis, it was necessary to do an individual calculation for every person, or very nearly every person. In order to be able to tell each person what he would get it would be necessary to divide the whole fund months in advance, and that made it very difficult to avoid extra work. Yet it was most important to give the members something concrete on which to come to a decision.