

APPENDIX II.

EXTRACTS FROM "THE JACKSON PRIZE ESSAYS."

FROM the ESSAY on the EQUAL-LEVY SYSTEM, by Mr. R. W. MOFFREY.

LET us now examine in some detail how the fault of the original system was brought home to the minds of the societies, and then endeavour to trace exactly where its weakness lies. I have already alluded to the dearth of actuarial knowledge at the time of the formation of our friendly societies; but during the last half-century (which, when its social history comes to be written, will be remarkable for the growth of the friendly-society movement) actuarial science has made giant strides, and this largely through the experience furnished by the organizations needing the knowledge. Within the ranks of the societies as well as among professional actuaries it came to be realized that to insure permanence the contributions of members should bear an exact proportion to the benefits promised; and the experience of the societies was utilized to ascertain what such a proportion should be. Statistics were collected and tabulated, which demonstrate with sufficient accuracy what would be the correct payment which each entrant should make to secure him the benefits promised by his society. This tabulation revealed the fact that every year a certain amount of sickness had to be provided for, and that a certain number of deaths would occur. It showed also the ages at which those eventualities happened with greatest frequency, and proved what needed little demonstration—that advancing age brought with it increasing liabilities in both directions. But it went beyond this: it proved that in their capacity as members of the society every one of them suffered a certain amount of misfortune, and the date of each one's death was accurately predicted. In saying this, let me not be misunderstood: membership of the society means that the liabilities are spread over the whole body, and that, though every member is not—indeed, could not possibly be—afflicted with exactly the same amount of sickness and die at the exact age expected, yet the fact that an ascertained amount of sickness must be experienced amongst the whole lays on those who have not had to bear the physical pain their share of the burden of provision. So with the deaths. Those who outlive the actuarial expectation balance those who die before reaching it.

From these facts the calculations of the weekly or annual sum necessary to secure in sickness a certain periodical payment and money at death have been made, and the societies which can safely say that their promises will be fulfilled are those which rigidly enforce on their members the payment of the sum shown to be necessary. In an earlier paragraph I have mentioned that the societies as they advanced found it advisable, indeed, necessary, to spread the liability for the death benefit over as wide an area as possible: hence the fact of such liability being borne by the groups of branches called districts. If, when they had discovered and enforced the correct rate of contributions from each member, they had also discovered the necessity of separating that contribution into its component parts, the difficulties now making themselves felt would not have been experienced. Looking at the subject in the light afforded by these investigations, it is clear that there are two distinct liabilities—first, that for sickness; next, that for death—and the contribution of the individual has to be settled to meet them both. But from the constitution of the societies the two liabilities are borne by different bodies—that for sickness by the single branch, that for death by the group into which it has been found expedient to bring them. Accordingly, as soon as the correct contributions to meet both contingencies had been settled, the proper destination of each should have been insisted on. The unit of association, the lodge or court, should have retained the proportion paid to meet the sickness liability, and have remitted that intended to meet the death claim to the body which would have to disburse it. This proposition appears self-evident. If any organization is expected to pay a claim it should hold the funds wherewith to make payment. Unfortunately, this course was not adopted. The societies, which had gradually worked their way from a philanthropic basis to a scientifically actuarial one, had in the process much rough weather to encounter, and in many of the older branches the present members have to bear the heavy burden of liability which is a legacy from their predecessors. Their funds were so low that to divert any greater portion of them than was really necessary for the moment into another channel appeared to them to be only a means of bringing about their collapse. So, whilst the rate of contributions of incoming members was carefully framed according to ascertained necessity, the other point, that of separating them into their component parts, was left untouched. And yet one was as essential as the other. It was at a comparatively early period found to be necessary to call on every one to pay a regular contribution for the benefits promised, though many years elapsed before it was discovered what that contribution should be. The system of irregular contributions, or levies from individuals to the branch which had been the first one to attempt to meet the claims of members, stood condemned by its abandonment. It would, however, have been as logical to have continued that primitive system as to expect that one portion of the liability could be met by irregular or inadequate levies from branches to the district fund, when the liability itself had been transferred to the district.

It may not, however, be admitted that the necessity existed to separate the payments and remit the portion for the funeral liability to the district. In support of the disbelief so generally spread, reference is made to the apparently satisfactory working of the districts for long periods. Doubtless it was satisfactory at the starting of those districts, for at first the members were all comparatively young, and of nearly the same ages. The death claims would therefore be few, and their incidence about equal. Moreover, as the discovery or enforcement of the proper rate of contributions only dates from a recent period, most of the present districts were formed when a uniform contribution for all benefits was accepted from entrants of all ages. Under such circumstances it was natural that branches should be called on to pay a levy calculated only according to the number of their members, all other conditions being so nearly equal. If such similarity could have been made to continue along the entire history of a district, the equal levy might be continued without detriment, because each branch would bring on the district exactly the same liability. But it is perfectly impossible that every branch shall encounter the same experience—impossible so long as one man differs from another in feeling, habits, and tastes—impossible, in short, while the world lasts. One branch attracts a lot of new and young members; another, from indifference or a variety of causes, simply stands still, forgetful that its members are growing older, and that one day their branch will expire from sheer inanition. Year by year the percentage of deaths in the latter would steadily rise, and year by year its claim on the district for funeral money would increase in a like ratio. The former, on the other hand, by its introduction of young members has kept down its death-rate, and its claims on the district remain low.

On these two typical branches what is the effect of an equal funeral levy from each member? Simply that the branch which has by vigorous work maintained its youth is called on to pay just as much as the other which had allowed age to creep on it without having made the necessary provision. By this means money is taken from the active branch to make good the deficiency of the levy from the older one, and the young branch is thereby brought into such a condition that, when its time arrives, it must seek the assistance of others to meet its own claims. Surely this must be wrong. "Our system has worked well for forty years," say those who oppose any change, "and how can you contend, after it has stood the test of such a time, that we are not correct?" In reply to the question I would say that, though it may have existed for forty or fifty years, it has not worked well—that the difficulties it has entailed are now being made manifest—and ask those who hold the opinion that it has been successful to suspend their judgment until they had considered how long it took to bring about the present graduated rate of payments, and to consider patiently all that can be said on the other side. And, while considering this phase of the subject, we must not forget the branches which have been opened many years after the district was formed. Consisting of young members, their death-rate would not even approach that of those who started the district. Yet by the equal levy they are called on to contribute in the same ratio as those who bring nearly all the liability.

The great objections offered to any alteration are—that the establishment of adequate district funds will take from the branches a large amount of their capital, putting it beyond the control of their members; and that those most seriously affected would be the older branches; so that, to insure for their members the promised funeral allowance, you will take from them such a sum as to compel them to reduce their sickness pay, or, as it has been tersely expressed, "You would starve them while living, that you may bury them like princes."