

CORRESPONDENCE.

To the Editor of the "Transactions of the Faculty of Actuaries."

SIR,

VALUATION OF WIDOWS' FUNDS.

I think I should be right in saying that the feature which strikes an Actuary first when called upon to value one of the well established Widows' Funds in Scotland is the prescience with which the original Constitutions were drawn up and the rates of contributions fixed, all the more remarkable considering that the work was in many cases done from fifty to one hundred years ago with very little material to act as a basis, and that many of those who made the calculations had little knowledge of modern actuarial principles. Having stated this, however, I think all those Actuaries who have a connection with Life Assurance Companies have probably at some time or other wondered why there has been so little change in the conditions of membership and the rates attaching to these Funds.

In the case of a Life Company competition renders it necessary to be abreast of the times, and the Constitution of the Company, the conditions attaching to contracts and the rates of premium, etc., require from time to time to be overhauled in the light of more modern experience, whether in regard to an improving rate of mortality or the rate of interest or the conditions of life, etc. In the case of a Widows' Fund, may it not be that those having charge of these Funds hesitate themselves to disturb existing conditions as they have not the full knowledge of the working of the forces which affect the rates of contribution, valuation results, etc. On the other hand the remits to the Actuaries in connection with the valuation of Widows' Funds are naturally made in terms of the Constitutions of the Funds which are usually restrictive; the Actuaries, therefore, have perhaps felt precluded from advising on questions not specifically included in the remit. The question, however, of alteration in rates, etc., must arise sooner or later and may it not be a wise policy for the first move in the matter to be with the Actuary? It was because of this that I ventured to make a few remarks in the discussion of Mr. Alexander Fraser's

recent Paper on the "Scottish Bankers' Mortality and Marriage Experience, 1903-1923," on the subject of deficiencies in the contributions of new entrants.

I would now like to make a few further remarks on the general question.

While one must of course give proper weight to the circumstances of each particular Fund, I think the general statements can be made—

- (1) that in the case of some Funds the Constitution requires overhauling ;
- (2) that the rates of contribution in connection with many Widows' Funds would, if calculated to-day on modern bases show large variations from those which are at present in force ;
- (3) that with regard to the Funds where deficiencies of contributions have been reserved for, the new entrants will be paying a contribution insufficient to support the benefits provided for them—and it will follow from this that it would work to the advantage of present members of the Fund if no new entrants were taken.

I do not propose to dwell on the first two statements except to say that it is highly desirable that things should be kept up-to-date and on a proper basis, which in the case of the contributions is all the more necessary, as the relative rates of contribution from age to age often progress in quite a different manner when calculated on a modern basis from what they do according to the scales at present in force.

With regard to (3), it has been mentioned that some Funds in question are supported by legacies and voluntary contributions, and that, therefore, these sums should not be expended on present members alone. There is something to be said for this argument although there would be more force in it if the capital sums representing such legacies and donations had in the past been kept in reserve and the interest only taken for the benefit of present members. In any case, however, I do not think this question affects the point I would make, namely, that the question of reserving for deficiencies of contributions in respect of new entrants should be carefully considered or reconsidered by Actuaries having charge of the valuations of Widows' Funds. Whatever may have been in the minds of those who originally founded these Funds it

is a fact that to-day the reserves for deficiencies of future contributions have a detrimental effect on the benefits accruing to the present members of the Funds. Moreover, I venture to think that those having charge of these Funds do not sufficiently realise this, and they might after giving the matter full and careful consideration be disposed to make such changes in the Constitution as would place the Funds on a more satisfactory and equitable basis. It might be well here to mention that even although at the present time certain Widows' Funds provide that the contributions of new entrants shall be increased if the present annuities are increased, it is often found that the method of increase prescribed in the Constitution still leaves a deficiency in the contributions of new entrants, and in the case of at least one Fund the whole position is rendered still further complicated whenever a further increase is made to the present annuities.

It might be asked what constructive suggestion can be put forward which will put the matter on a proper footing. I would make the following suggestion merely as an example of one possible method:—

- (a) Minimum rates of annuity in the various classes should be fixed; these rates may be identical with or may differ from the rates of annuity originally provided for in the present Constitution of the Fund;
- (b) An Actuary should be consulted in order that the rates of contribution adequate to support the minimum rates of annuity may be fixed;
- (c) New entrants should pay the contributions mentioned in (b) in respect of the annuities mentioned in (a).

Let us assume that at the first valuation date following the re-organisation of the Fund a surplus arises; it is suggested that this surplus should be applied in whole or in part to increase by a percentage the annuities of such annuitants and members as were on the books at the valuation date. Entrants after the valuation date would, however, only be credited with the minimum rate of annuity referred to in (a) above. On the next occasion of a surplus arising a similar procedure is suggested, the surplus being applied as a percentage increase to the annuities of such annuitants and members as were on the books as at the valuation date—in fact the method of working is obviously similar to that of a compound bonus system in a With Profit Life Assurance business.

One objection might be urged against this method, namely, that in view of the fact that annuitants are not contributing to the surplus in the same way as are the members they should not be entitled to participate in the surplus. This objection, however, is one which has regard to but one aspect of the case and does not keep in view the *raison d'être* of these Funds, which is to give the greatest advantages possible to the widows of members. In any case the objection is not one which would meet with the sympathy of those in charge of Widows' Funds.

This method would enable the Actuary to disregard the question of deficiencies of contributions in respect of new entrants and would release in the case of many Funds a considerable sum which could be employed to increase the annuities of present annuitants and present members.

I am,

Yours faithfully,

A. E. KING.

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EDINBURGH, 1925.
