

Superannuation  
Fund

of

The Methodist Church



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Report of Commission  
Appointed by General Conference



September, 1906

# Superannuation Fund of the Methodist Church

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## Report of Commission

Appointed by General Conference

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The Commission appointed by the General Conference of 1902 (see Journal, page 180) with instructions to investigate and report upon the condition of the Superannuation Fund, begs to present its report. Mr. Thos. Hilliard presents on his own behalf a minority report :

Your Commission has held five meetings and conducted a large correspondence. In accordance with its instructions it has obtained the assistance of Insurance Experts, Mr. Geo. Wegenast, General Manager of the Mutual Life Insurance Company of Canada, and Mr. Thos. Hilliard, General Manager of the Dominion Life Assurance Company, kindly acting in this capacity.

The Commission has given special attention to the carefully prepared memorial of the Manitoba Conference, with its valuable exhibits, showing the serious evils that exist through the undue multiplication of Domestic Missions and feeble Circuits, within the bounds of the Central Conferences.

It has also carefully considered the tabulated history of the Fund, as prepared by the Secretary of the Board and presented to the General Conference ; also statistical information gathered by the Treasurer as to the influence of the Union of 1884 upon the income and expenditure of the Fund.

It has also corresponded with the Rev. J. E. Carruthers, the convener of a similar Commission appointed by the Australian Conference.

Your Commission finds that in the year 1894 the General Conference made certain amendments to the constitution of

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the Fund, reducing the Circuit Assessments and increasing the Ministerial Subscriptions. The readjustment resulted in a net increase of about \$2,000 in the annual income, yet the next year, the year the change went into effect, there was a deficit of \$6,400. In the following year a discount of 6 per cent. was made in the annuities, but the amount borrowed from the Permanent Fund was increased by \$5,000. Each of the seven years following the annuities were discounted by 10 per cent., yet at the end of July, 1903, the indebtedness to the Permanent Fund had increased to \$26,000. The General Conference of 1902 reduced the scale of allowance by 10 per cent., making it the same as the actual distribution of the previous seven years; it also increased the Circuit Assessment by 20 per cent. and the aggregate of Ministerial Subscriptions by about 10 per cent., thus providing an additional revenue of \$13,000. This has resulted in a succession of annual surpluses. In 1904 the surplus was \$7,800; in 1905 it was \$10,500; this year (1906) the surplus is \$12,670.68. The surpluses wipe out the \$26,000 deficit and leave a credit balance of \$4,753.40.

The Secretary of the Commission has prepared tables showing that during the past 20 years the average annual increase in the income of the Fund has been two and a half per cent., and during the same period the average increase in annuities has been three and a half per cent. The following percentages of average annual increases, covering the past 20 years, are of interest as illustrating the abnormal increase of annuities:

Increase in the population of Canada .....	1½ per cent.
Increase in the adherents of Methodist Church.....	1½ per cent.
Increase in the ministers of the Methodist Church...	1½ per cent.
Increase in the income of Superannuation Fund.....	2½ per cent.
Increase in the claims on Superannuation Fund.....	3½ per cent.

It is this disparity between income and expenditure that furnishes the problem with which we are compelled to grapple.

The abnormal increase is accompanied by an increasing proportion of claimants as compared with ministers in the active work. The proportion of widows to ministers in the active work is practically the same in England, Australia, and Canada, there being one widow for every six and a half active ministers.

The proportion of superannuated to active ministers varies, and is as follows:—

Australia, one to seven.

British Prim. Meth., one to six and three-quarters.

British Wesleyan, one to six and a half.

Maritime Conferences, one to six.

In the Canadian conferences related to this Fund in the year 1886 the proportion was one to six and a half, the same as the British Wesleyans; four years later it was one to six; then one to five and a half; it is now one to five. It is significant that with death as the determining factor the proportion of widow claimants is the same in all the Methodist Churches; but when administration and expediency determine the number of claimants, there is a wide disparity between our own and other Methodist Churches.

#### THIS DISPARITY IS EVIDENTLY CAUSED BY PREMATURE SUPERANNUATION.

There has been for many years a steady increase in the longevity of our ministers, but the added years are spent in the superannuated relation rather than in the active work. A comparison of the average number of years spent by ministers as claimants on the Fund is also significant in this connection. The average term on the Fund in the British Conference is eight years. This was the average in the Methodist Church of Canada prior to the year 1884. Since that time it has steadily increased till now the average is twelve and a half years. It is quite evident that Canadian preachers, when given a superannuated relation, are not as nearly worn out in the itinerant service as are the preachers of the British and Australian Conferences. An average of two more years in the active work would add 10 per cent. to each annuity; and if the average term on the Fund were the same to-day as twenty years ago we could pay eleven dollars per year for each year of service.

The arrangement of circuit work in Great Britain and Australia favors a longer term of active service. A station occupied by one pastor is very rare. It is usual for two or more married ministers to be stationed on a compact circuit having a town or village as its centre. The superintendent is relieved of the more arduous physical work, and his colleagues meet the sentiment of those who desire junior ministers; in this way the elderly minister is able, with comfort to himself and gain to the connection, to continue in the pastorate several years longer than the brethren in our own conferences. So deeply ingrained is this British policy, that the Superannuation Treasurers frequently request the appointment, and pay the salary, of an assistant for an elderly minister, this in the interest of the Superannuation Fund.

## WHY DO OUR MINISTERS RETIRE BEFORE THEY ARE WORN OUT ?

Why is it that since 1884 there has been a steady advance in the average number of years spent by claimants on the Fund? What are the conditions back of premature superannuation? Increased longevity has been already referred to. But why are not the added years spent in the active work?

We cannot close our eyes to a growing sentiment on the part of our Quarterly Official Boards against elderly pastors and in favor of young men. This has led ministers who are still effective to ask for a superannuated relation years before they otherwise would. We are of the opinion that the intelligent and fraternal co-operation of Official Boards and Stationing Committees would go far toward securing results that are not possible by mere legislation.

But your Commission is reluctantly compelled to the conclusion that the crowding of ministers in the central conferences, consequent upon the union of the four Methodist Churches is the principal cause of premature superannuation on the one hand, and of inadequate income on the other. A careful analysis of the office records by the Treasurer shows that the personal contributions and circuit income of claimant ministers belonging to some of the churches which were parties to the Union have failed to balance the annuities of these claimants and their widows, the deficit corresponding very closely to the aggregate deficits of the Fund as represented by the discounted portion of annuities, and the reduced scale during the past twelve years. The union of these churches is of infinitely greater importance than any incidental disturbance of financial relations, and your Commission would have hesitated to mention this source of embarrassment did it not serve a useful purpose in suggesting that the chief cause must in the nature of things shortly pass away.

The radical changes made by the last General Conference have turned a succession of deficits into surpluses and placed the Annual Fund in a solvent position. Your Commission, however, is a unit in the conviction that the condition of the Fund demands the readjustment of some of its provisions. The present succession of surpluses in the Annual Account is a matter for congratulation. We are enjoying a season of unprecedented commercial prosperity which is accompanied by an increase of salaries and Connexional Funds. The average increase in the income of the Fund for the past (4) four years has been five per cent., as compared with an average of two per cent. during the previous 16 years; but a check may be expected sooner or later when, as in previous periods of commercial reaction, our church finances will suffer: there-

fore it becomes a matter of common prudence to provide, if possible, against future deficits in the Annual Income.

Our insurance experts, Messrs. Wegenast and Hilliard, at the second meeting of the Commission, affirmed the advisability of placing the Fund on an actuarial basis, and presented tables of annuities which would enable the Treasurers to add \$50,000 a year to the Permanent Fund. They also stated that with this reduction of about 45 per cent. in the gross annuities, the present value of the assets and liabilities would be as follows :—

#### LIABILITIES.

To ministers in the active work.....	\$1,147,298
To the wives of the foregoing.....	247,443
To superannuated ministers.....	471,818
To the wives of the foregoing.....	179,994
To widow claimants .....	279,643
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	\$2,317,146

#### ASSETS.

By invested capital .....	\$281,746
Net liability .....	\$2,035,400

If the present scale of annuities be maintained the liabilities are thereby increased to over \$3,000,000.

Your Commission is of the opinion that in the annual grant made by the Book and Publishing House, and the definite and reliable annual contributions of our ministers and circuits, the Fund has an asset that quite balances the apparent deficit of the foregoing actuarial valuation.

A sub-committee was appointed to confer with Messrs. Wegenast and Hilliard to discover whether a less drastic reduction in the Annuities could be devised consistent with the safety and stability of the Fund. These gentlemen expressed the opinion that, if the larger reduction were impracticable, the placing of 25 or 30 per cent. of the income in reserve would be of value as moving in the right direction.

Correspondence was also initiated with the Rev. J. E. Carruthers, the convener of a Commission appointed by the Australian Conference. The Australian Superannuation Fund, till about 14 years ago, was practically on an actuarial basis, when by a series of misfortunes, the invested capital suffered a shrinkage of something over \$300,000. In order to restore the impairment, the Annuities were reduced, and the contributions of ministers and circuits increased. This course awakened strong protest. At the last General Conference a former scale of Annuities was restored,

and a resolution adopted looking toward the division of the Fund into two parts, an Annuitant Fund, supported by the ministers on an actuarial basis, and an Auxiliary Fund, supported by circuit contributions and administered much as we administer the Canadian Fund. The Conference appointed a Commission with instruction to seek further actuarial advice, and other information. The Commission held its first meeting in March, 1905. The actuaries consulted do not agree on the necessity of an actuarial reserve for the Auxiliary Fund. Mr. T. A. Coghlan, President of the Institute of Actuaries of New South Wales, and Government Statistician, takes the position that an actuarial reserve is not necessary for a superannuation fund. He says: "There are two ways of looking at the Fund, from a strictly actuarial standpoint, and from the standpoint of the Church as a living body. I am disposed to think that the proper view is the non-actuarial one." Speaking of the New South Wales Government railway superannuation scheme, Mr. Coghlan says: "As you can well understand, with railway commissioners representing the Government, it would not be necessary for them to accumulate a fund to meet a superannuation scheme. It would simply mean that the railway commissioners would have to look for a permanent increase in their wages bill."

Among other questions he was asked the following:—

**QUESTION.** The English Methodist Church has an Auxiliary Fund for making provision for retired ministers, etc. Its sources of income are various, but it is principally dependent upon an annual collection from its church members. This is to some extent unreliable. If the element of uncertainty were removed by the substitution of a fixed and reliable contribution from the respective congregations, and an assured income thus secured to the Fund, would you regard this as an undesirable system of finance, or as one justified by the character and constitution of the Church itself?

**ANSWER.** I would not consider it an undesirable system of finance. I do not consider that either in the case of a nation or a progressive church, that it is necessary that the provision made for its servants or ministers should be other than an annual one. In an ordinary life assurance society there is always the contingency to be faced of a large reduction in members, and such a society must be prepared to stand the test of showing assets equivalent to its liabilities. The State is in an entirely different position, and so also is a living and progressive church. In these cases of State and Church, the annual provision made for those in its service is based on the assumption of its living for ever.

Your Commission would also suggest that there is a

wide distinction between a fraternal life insurance society and the Superannuation Fund. Unlike the fraternal society, the Church by its untrammelled legislative powers controls three things that guarantee permanency; it controls the liabilities of the Fund, these if necessary may be reduced; it controls the income of the Fund, it can be made adequate; it controls the membership of the Fund, these cannot withdraw.

**AN ACTUARIAL BASIS IS NOT ONLY UNNECESSARY,  
IT IS INEXPEDIENT.**

Any approach to an actuarial reserve can only be made by diverting a large part of the present annuities (which in too many instances are painfully inadequate) from meeting the needs of annuitants. The British Wesleyan Church has two Funds of this character. The one is an "Annuitant Society" sustained by the ministers' subscriptions. The other is an "Auxiliary Fund," and is sustained by Circuit contributions, etc. The first has an actuarial reserve; the second has not, but distributes its income from year to year. The Annuitant Society has an income of \$120,000. The Auxiliary Fund has an income of \$137,000. Membership in the Annuitant Society is voluntary, therefore smaller than that of the Auxiliary, yet the latter distributes to its members almost twice as much as the former. For seventy years eight or nine groups of retired ministers have in turn become claimants on the Annuitant Fund. Sixty years ago the reserve was put up in the interests of the younger generation of preachers. That generation has passed away and claimants are still being impoverished in order to swell the bulk of an academic reserve. The following is an exhibit of the payments to superannuates by the two Funds:

Years of Service.	Annuitant Fund.	Auxiliary Fund.
20 .....	\$ 73 00	\$150 00
30 .....	110 00	220 00
40 .....	162 00	270 00

For 72 years the Canadian Church has followed the plan of the Wesleyan Auxiliary in putting more than nine-tenths of its income to immediate use. The Fund was never as loyally sustained as it is to-day. The living, growing Church generously meets the needs of its large army of workers in all fields, and also of its worn out heroes and their widows and orphan children, and we can well afford to have faith in God and in the vitality of the church of the future to take care of all worthy claimants without needlessly embarrassing those whose present dependence is upon this Fund.

The minority report dissents from this finding of the Commission and proposes the formation of two funds, an Annuitant Fund, the income of which shall consist of ministers' subscriptions, Book Room appropriations, and interest on invested capital; and an Annual Fund, which shall derive its revenue from Circuit contributions. The former to be placed on a modified actuarial basis, and the latter to be administered on the principles that have obtained in the past.

It is contended that "at the very least the ministers now in the active work should be guaranteed the results of their personal contributions." But the scheme contains no such guarantee. It gives no credit for actual contributions. If an actuarial basis is necessary for the financial protection of ministers, consistency demands that each minister shall be credited with his actual contributions. If, however, instead of invoking the protection of the actuary, we invoke the spirit of connexionalism as between the brethren that have the larger and the smaller salaries, we may consistently invoke the same connexionalism as between the ministers now on the Fund and those in the active work, and as between the active ministers of to-day and those of the next generation. It would seem that if ministers' subscriptions are to be dealt with on a commercial basis they should be made uniform, as in Great Britain and Australia, and credit given for the sums actually paid. We see here an illustration of the impracticability of treating our Superannuation Fund by the canons of actuarial science.

Then your Commission feels that the proposed division of the Fund would not remove the chief difficulty. There would still be the locking up of a large percentage of the current income, and a painful reduction in annuities.

In conclusion your Commission bespeaks the careful and unprejudiced consideration of its proposals by the General Conference. It is convinced that an actuarial basis of finance is not necessary for the stability of the Fund and would be a serious injustice to present beneficiaries, and a disadvantage to future claimants. On the other hand it is convinced that if no readjustment be made in the financial provisions there is a possibility, if not a probability, that our annual surplusses may be turned into deficits. This tendency is guarded against by the proposal to form a Special Reserve Fund. It is the judgment of your Commission, that having regard to our past experience, the proposed readjustments are entirely adequate to the safety and stability of the Fund; and if the tendency to premature superannuation be checked, and the undue multiplication of Domestic Missions and feeble Circuits be corrected, a greatly improved condition of the Fund may be

anticipated. In any case, your Commission deprecates any feeling of uneasiness or alarm, THE CHURCH WILL ALWAYS BE ABLE TO ADJUST ITSELF TO NEW CONDITIONS AS THEY ARISE, AND UNLESS IT UTTERLY LOSES THE GENIUS OF METHODISM AND THE SPIRIT OF ITS LORD AND MASTER, WILL EVER CARE FOR ITS FAITHFUL AND AGED SERVANTS.

#### RECOMMENDATIONS.

Your Commission recommends :—

(1.) That in order to provide a more adequate and more equitable annuity for ministers who have spent 36 years and upwards in the active work, and also to discourage the tendency to premature superannuation, the scale of payments be readjusted in such a manner as that.

(a) The aggregate annual payments shall remain proportionately as at present.

(b) The annuities of those who have rendered more than 35 years' service shall be increased by twelve or thirteen dollars each year as per the subjoined scale, instead of by nine dollars as at present.

(c) The annuities of those who have rendered 23 years' service and less than 35 years' service shall be decreased by the uniform amount of thirteen dollars a year, instead of irregularly, as at present.

(2.) In order to provide for any deficiencies that may arise in the future, it is recommended that any surplus in the Annual Fund shall be kept in a separate account and held as a Special Reserve Fund, and the principal and interest of the same shall be used to meet any subsequent deficiencies in the Annual Fund.

(3.) That in order to enforce the provisions of Par. 146, Sub-sections 8, 9 and 10, the Superannuation Fund Board, be authorized through the Treasurer of the Fund, or through some minister in each conference appointed by the Board, to confer and co-operate with the Stationing Committee in giving effect to the requirements of the Discipline in this behalf.

(4.) In order to give effect to the foregoing recommendations, and to otherwise improve the Constitution of the Fund, your Commission recommends the following amendments to the same.

1. That Par. 146 be amended by adding the following :—  
10 (c) In order to better enforce the provisions of Sub-sections 8, 9 and 10 of this Par., the Superannuation Fund Board is

hereby authorized, through the Treasurer of the Fund, or through some minister in each Annual Conference appointed by the Board, to confer and co-operate with the Stationing Committee in giving effect to the requirements of the Discipline in this behalf.

2. That Par. 185 be amended by adding to Sub-section 21 the words: "What ministers have married during the year?"

3. That Par. 120 be amended by adding Sub-section 23 as follows: "23. What ministers have married during the year?"

4. That Par. 473 be amended by inserting a sub-paragraph between numbers 2 and 3, as follows: "The name of each minister who has married during the year."

5. To insert a Par. between Pars. 473 and 474 as follows: "Par. ....A minister shall be under obligation, on request, to give the Clerical Treasurer, the date of his own, and his wife's birth."

6. That a Par. be inserted between Pars. 429 and 430, as follows:

#### SPECIAL RESERVE FUND.

"Par. ....The surpluses in the Annual Fund shall be kept in a separate account and held as a Special Reserve Fund. The principal and interest of the same shall be used to meet any deficiencies that may occur in the Annual Fund."

7. That Par. 432 be amended as follows: (a) By striking out the word "may" in the eighth line, and substituting therefor the word "shall." (b) By striking out all words from "If the quarterly" in the tenth line, to the word "assessment" in the sixteenth line.

8. That Par. 437 be amended by striking out the word "regularly" in the second line.

9. That Par. 445 be amended by striking out the same and substituting the following therefor:

"The annuity of a widow who is fifteen or more years younger than her husband shall be reduced by two and a half per cent. for each year of disparity in age."

10. That Par. 448 be amended by striking out the words "within the Methodist Church" in the fourth and fifth lines, also by inserting the words "or permission" after the word "appointment" in the fifth line.

11. That Par. 451 be amended by inserting the words "or probationer" at the end of the first line.

12. That Par. 455 be amended by inserting the words "thereby becomes a member of the Fund, and."

13. That Par. 456 be amended: (a) By inserting in the

first line after the word "minister" the words "who has rendered more than ten years' active service." (b) By striking out the scale of annuities contained in said Par., and substituting therefor the following :

Years of Service.	Annuity.	Years of Service.	Annuity.
11 .....	\$ 51	31 .....	\$263
12 .....	57	32 .....	276
13 .....	63	33 .....	289
14 .....	69	34 .....	302
15 .....	78	35 .....	315
16 .....	87	36 .....	328
17 .....	96	37 .....	341
18 .....	108	38 .....	354
19 .....	120	39 .....	367
20 .....	132	40 .....	380
21 .....	144	41 .....	392
22 .....	156	42 .....	404
23 .....	159	43 .....	416
24 .....	172	44 .....	428
25 .....	185	45 .....	440
26 .....	198	46 .....	452
27 .....	211	47 .....	464
28 .....	224	48 .....	476
29 .....	237	49 .....	488
30 .....	250	50 and upwards...	\$10 for each year.

14. That Par. 457 be stricken out and the following substituted therefor : " Par. 457. A superannuated minister who prior to the year 1884, (notwithstanding that he rendered less than 20 years' active service), was granted an annuity to continue during his natural life, shall be paid an annuity as provided by the scale of Par. 456, and the same shall continue during his natural life."

15. That Par. 459 be amended by striking out the words following the word " year " in the second line, and substituting therefor the following : " the deficit in income shall be made up out of the Special Reserve Fund."

16. That Par. 460 be amended by striking out the words " twenty dollars," and substituting therefor the words " thirty dollars."

17. That a new paragraph be inserted between Pars. 460 and 461, under the " Commutation of Annuities," to read as follows : " Par—— A superannuated minister who has rendered less than eleven years' active service shall not become an annuitant, but his claim on the Fund shall be commuted."

18. Amend Par. 461 (1) By striking out the first line and substituting therefor : " A superannuated minister who in the judgment," (2) By adding to the paragraph the words, " Provided always that his relation is not that of a minister superannuated for one year only."

19. Amend Par. 462 by striking out the words " in such matters," in the last line thereof.

20. Amend Par. 466 by striking out of the 5th line the words, " Article VI. of this Constitution," and substituting therefor the words, " The Treasurer's books."

21. Amend Par. 470 by striking out the same and substituting the following : " A minister who is located thereby ceases to be a member of the Fund. If he shall have travelled fewer than 23 years, his annual subscriptions shall be refunded with five per cent. simple interest ; if he has rendered 23 or more years of service his interest in the Fund shall be commuted by the Board. Any sums paid him as a superannuated minister shall be deducted from the refund or commutation, as the case may be."

22. Amend Par. 471 by striking out the words " or probationer " in the second line, and inserting before the word " in " in the first line the following : " Par. 471. A probationer who ceases to be a member of the Fund shall have his annual subscriptions refunded."

All of which is respectfully submitted,

(Signed)

A. CARMAN, Chairman.  
W. S. GRIFFIN,  
JAMES WOODSWORTH,  
THOMPSON FERRIER,  
W. J. ROBERTSON,  
FRANK DENTON,  
WM. KETTLEWELL, Secretary.

#### MINORITY REPORT OF THE SUPERANNUATION FUND COMMISSION.

To the Superannuation Board :—

The undersigned, a member of the Superannuation Fund Commission appointed by the General Conference of 1902, being unable to concur in the report adopted by the majority of the members of said commission, begs leave to present a minority report, as follows :—

1. The Commission was instructed,—

(a) To find the present value of the total obligations resting upon the Fund in respect to present annuitants, and also the contingent claims arising from the expectancy of all the ministers now in the active work.

(b) To ascertain whether the present scale of disciplinary allowances is a correct and equitable adjustment of such claims, having regard to the needs and ages of claimants at the time of superannuation and the years of active service in each case; and if the present scale should be found inequitable to a material extent, to prepare a scale of allowances that shall be approximately just and equitable.

(c) To devise amendments to the present constitution of the Fund which shall have the effect of securing the safety and permanence of the institution, so that future claimants shall have the assurance of equal benefits with those who are now claimants or may become such at an early date.

These instructions are sufficiently comprehensive to cover all the essential features of a thorough investigation, and if fully and intelligently complied with, should result in a plan being reported that will combine equity as between claimants with perfect security to all. But to secure this end it is obviously necessary that the whole question be examined from a purely business standpoint. The fact that it is the Church which has undertaken a business enterprise, viz., that of providing annuities for its ministers and their widows, does not change the nature of the undertaking, does not remove it from the realm of business into that of sentiment. Business principles must rule in business transactions. The Church undertakes to provide certain annuities for retiring ministers. It finds the money by requiring certain payments from its ministers and their congregation during the period of active work. The sum of the payments outward cannot in the end exceed the sum of the payments inward. But the payments inward are fixed approximately by the law of the Church. They can be foreseen and summed up within a small margin of error or variation, and a definite relation between the income and outgo can be established by actuarial calculation. The amount of the annuity that upon the average is producible by the accumulation of the payments of each minister and his people into this Fund from the date of entry into the ministry to the date of superannuation can be calculated almost precisely, and that amount is all that can be paid to him under penalty of the final breakdown of the Fund. The transaction is akin to life assurance on the endowment plan, with some slight variations in detail from the popular form of endowments sold by life insurance companies. Any life insurance company would, on certain conditions, take the contract off the hands of the Church. If the Superannuation Commission could discover just what these conditions would be, and would then eliminate the element of profit, thus getting the matter down to net cost, so to speak, the problem set before us by order of the General Conference would be practically solved. And that this view was in the intention of the Conference is plainly shown by

the fact that the Commission is instructed to employ two competent actuaries to investigate and report upon the whole question. But the majority report is founded on the premise that this Fund, being an institution of the Church, is independent of actuarial principles. If the General Conference had been of that opinion, it would not have stultified itself by ordering the actuaries to be employed. But General Conference went a step further. It not only ordered that actuaries be employed, thus endorsing the application of actuarial principles to the problem in general, but it specified distinctly the work they were to do. This work falls under two general heads,—

- (a) To value the present obligations of the Fund.
- (b) To devise an equitable scale of annuities, that should at the same time be permanently secure, having regard to the prospective income of the Fund.

Both these problems, are purely actuarial. That is to say they are problems in that branch of applied mathematics which deal with life contingencies and compound interest. Without applying intelligently the principles of this branch of mathematics, the solutions proposed will be only guess work, and almost inevitably will lead to disappointment in the not very distant future.

The undersigned has proceeded on the understanding that General Conference was serious when it ordered that the status of the Superannuation Fund be thoroughly investigated with the aid of competent actuaries, and that it really wanted a scale of annuities prepared which should bear an equitable relation to the years of service of the ministers and their ages at superannuation.

He therefore begs respectfully to submit the following results of his labors, and deeply regrets that the very highly esteemed brethren who have labored with him appear to be unable to see the matter from an actuarial standpoint.

The first item in the instructions to the Commission was an order to find the present value of the obligations of the Fund.

For convenience it was necessary to take the valuation as at the end of a Church year, and the 1st of July, 1903, was taken as the date of valuation. The Superannuation Office kindly procured a nearly complete list of all the ministers related to the Fund, with their ages and that of their wives, and their years of service, these being the data required for valuation purposes.

The valuation was made on the hypothesis that all the claimants at the date of valuation would continue to receive their present annuities, but that all persons becoming claim-

ants after July, 1903, would be placed on the new scale hereinafter set forth.

The tables of mortality known as the British Institute of Actuaries Tables Hm. & Hf. (Woolhouse adjustment) were used with 3 per cent. interest.

It was assumed throughout that widows' claims were to be two-thirds of the value of their husbands'.

The following is the result of the valuation :

1. Value of Current Claims,—	
(a) Ministers .....	\$471,818
(b) Widows .....	279,643
2. Value of Prospective Claims,—	
(a) Wives of Superannuates .....	\$ 170,944
(b) Ministers in Active Work .....	1,147,298
(c) Wives of Ministers in Active Work .....	247,443
	\$2,317,846

No account is taken here of the claims of children, as the exact solution of this part of the problem is difficult, and the total amount involved is not very large.

The present value of the indebtedness of the Fund is therefore measured by the sum of \$2,317,846, a sum large enough to cause the responsible authorities of the Church to take the matter into serious consideration. It is not a mere juggling with figures that show this result; it is the close and accurate calculation of a stubborn and irreducible fact. If, however, the actuarial scale of annuities submitted with this report were to be applied forthwith to items 1, (a) and (b), and 2, (a), the combined value of which is \$922,405, the effect would be to reduce the item by about one-third, and the total to two millions in round numbers.

But if, on the contrary, the present disciplinary scale of annuities be continued, the effect upon the total valuation would be to increase the latter two items by over 40 per cent., making the grand total approximately three millions.

The significance of these figures will be appreciated when we consider that this obligation has been piled up against the Fund in a little over 60 years. That is to say, our indebtedness has been growing at the average rate of about \$50,000 a year, and as we have invested capital to meet it of about \$260,000 at date of valuation, we have been adding to reserve less than \$5,000 a year. These averages, however, should be taken note of with caution, as it is beyond question that both the obligations and the reserve have increased

more rapidly in recent years than in the early years of the Fund, when both sides of the account were small.

In making the above valuation, two of the best actuaries in Canada were consulted. I computed the whole of the values myself and Mr. Wegenast checked them sufficiently to satisfy himself of their correctness. He also computed independently the tables which form the basis of the valuation, and finding they agreed with my work, gave a certificate of their general correctness, which is appended to this report.

The indebtedness shown by this valuation constitutes a very serious problem. The majority report proposes to ignore it, but the tactics of the ostrich in the presence of danger afford a poor solution of financial problems. There are only two honorable ways of meeting the case. First, by a large increase in Annual Income, and a firm determination to "lay by" every year the equivalent of three per cent. on our indebtedness as shown, thus checking the increase of it. Second, by cutting down the outgo, that is, the Annuities, to the amount we are able to pay without increasing the said indebtedness. The Commission, I believe, is a unit in the opinion that no material increase in either the assessments upon ministers or congregations will be feasible. Therefore we cannot increase the proportionate income per minister, to any material extent. The duty is therefore incumbent upon the Commission to meet this difficulty fully and courageously, and present a scale of annuities for which our present income will be adequate, and at the same time, make it as equitable as possible. The result will effect the necessary saving chiefly by a large reduction in the present grants to men who superannuate under forty years of service, and though this may seem a hardship to some, and doubtless will really be so, it is nevertheless strictly just, since each is to get exactly the amount produced by the average income of the Fund per minister, as paid by him and the people during his period of active service. If this is less than was expected, that is not the fault of the new scheme, but of the miscalculation of earlier days. And there is the satisfaction of knowing that under the proposed scale, permanence is secured, the amount promised can be relied on, and there is a possibility of some increase in the scale of annuities later on. This may arise from two sources. First, a higher rate of interest may be realized upon invested funds than the rate assumed in the calculations. Second, the liberality of the Church may be shown toward this Fund by substantial legacies which may be applied to the permanent Fund or reserve, thus decreasing the debt now resting upon it, and thereby increasing the amount available for distribution amongst the Annuityants.

In view of the foregoing considerations, I have the honor

to submit the following draft of a constitution for the Superannuation Fund of the Methodist Church, based on actuarial principles. If adopted, this Constitution would ensure safety for all future claims and claimants, equity as between individual claimants, and stability inasmuch as no future amendments or discounts would be needed. In one respect exact equity is departed from, the annuities allowed to ministers superannuating after age 64 being less than their length of service would entitle them to. The justification for this is two-fold. First: These ministers did not pay in the assumed amounts credited to them in the early years of their ministry. Second: The proper reserve has not been laid by heretofore, therefore the Fund will not bear heavier withdrawals than herein provided.

#### CONSTITUTION OF THE SUPERANNUATION FUND.

1. The claim of each minister shall be based upon length of service, and a minister's widow shall be deemed entitled to two-thirds of his claim upon the Fund.

2. Children of superannuated ministers shall be entitled to \$30.00 per annum until they are sixteen years of age.

3. A minister's claim upon the Fund shall be the annuity purchased at his attained age at the date of superannuation, by the pure endowment produced by a premium (net) of \$26.70 yearly paid into the Fund during his full term in the active work, such endowment and such corresponding annuity to be reckoned according to the British Actuaries Table of Mortality and three per cent. interest. The annuity is to be payable half-yearly, the first payment to be made December 1st following the date of his superannuation, without apportionment.

4. (a) A minister's widow shall receive the annuity purchased by two-thirds of her late husband's "pure endowment," reckoned at her attained age when she becomes a widow. (b) When a minister's widow is his second wife, her equity in the Fund shall be such proportion of two-thirds of his equity as her years as a minister's wife bear to his years of service in the ministry.

5. No claim shall be deemed to exist where less than five years' active service have been rendered.

6. The maximum annuity provided by this Fund shall be \$460 for a superannuated minister, and \$310 for a widow.

7. All income not disposed of in payment of claims and expenses each year according to the foregoing principles shall be invested in good interest bearing securities approved by the Board, being generally such as are allowed in the

Insurance Act for life assurance companies, and shall form part of the Reserve or Permanent Fund.

8. The status of the Fund shall be ascertained by an actuarial valuation once every four years in the year preceding the meeting of General Conference, when a complete balance sheet shall be embodied in the Quadrennial Report to be presented to the General Conference, showing the assets and liabilities of the Fund.

Complete tables showing the annuities payable at all ages and periods of service have been computed and placed at the disposal of the Board. An example is appended showing the annuities payable to a minister entering the service at the age of 25, and superannuating at ages 45 to 75 inclusive.

SCALE OF ANNUITIES—ENTRY AT AGE 25.

Age at Superannuation.	Annuity.	Age at Superannuation.	Annuity.
45	\$ 53	61	\$252
46	58	62	282
47	64	63	316
48	70	64	350
49	77	65	360
50	85	66	370
51	93	67	380
52	102	68	390
53	113	69	400
54	124	70	410
55	136	71	420
56	150	72	430
57	166	73	440
58	184	74	450
59	204	75	460
60	226		

The fundamental distinction between the present Superannuation Fund system (which, with slight modifications, the majority report recommends to be continued) and the actuarial system proposed by Mr. Hilliard, may be thus defined.

The present system uses practically the whole of the present revenues of the Fund in paying their annuities to present beneficiaries. It lays by nothing for future claimants, viz., those now in the Active Work. It invites them to look to the benevolence of the Church of the future for similar provision for their need when the need comes.

The actuarial system would have the Church of the present lay by and invest productively such sums as by careful calculation are found necessary to provide the

expected annuities for those now in the Active Work. It would give each claimant his share (proportioned to length of service) in the Fund thus accumulated. It would be just, equitable and stable.

Mr. Hilliard's alternative scheme applies the latter principle to the Annuity Fund to be raised by ministers' personal contributions, with interest on Permanent Fund and Book Room appropriation added, and applies the former principle to the contributions of the laity, to be treated as an Annual Fund.

It is respectfully submitted that the heavy assessments now levied upon ministers personally, can only be justified on the assumption that the future of the Fund is on a sure and stable basis, which is not the case while the entire income is being used in the payment of obligations incurred in former years. At the very least the ministers now in the active work should be guaranteed the results of their personal contributions. This would be done by the adoption of the "Alternative Scheme," the division of the Fund into Annuity and Annual Funds.

#### ALTERNATIVE SCHEME.

#### PROPOSED CONSTITUTION OF SUPERANNUATION FUND

Thos. Hilliard.

1. The Superannuation Fund shall be divided into two distinct and separate funds to be known respectively as the Annuity Fund and the Auxiliary Fund.

2. The Annuity Fund shall consist of the personal payments made thereto by all ministers in the active work or on their behalf and the Book Room grant, which shall be invested and accumulated at the best obtainable rates on good bonds or first mortgage security, and this fund shall be managed and administered on strictly actuarial principles, that is to say, each minister's personal payments shall be deemed a premium producing with its accumulations a pure endowment, which endowment shall at the time of his superannuation be used to purchase for him its value as a temporary or all life annuity, with reversion of the proper proportion of such value in favor of his wife should she survive him. The present Permanent Fund shall be transferred to the Annuity Fund.

3. The scale of ministerial payments shall be the same as that adopted by the General Conference of 1902, except that the minimum payment shall be \$20.00, but each minister shall be credited with the uniform payment of \$25.00 annually throughout the entire period of his active service, irrespective of the amount actually paid by him.

4. The scale of annuities payable to each minister shall be the table marked "C." The annuity payable to a widow shall be the amount purchased by three-fourths of her husband's endowment as shown in table "A," her age being taken as at the year she had entered upon at the date of her husband's death, if he died in the work, or at the date of his superannuation, if he died while sustaining that relation. In case of a second or subsequent marriage, the widow's annuity shall be the amount purchased by that fraction of her husband's endowment, the numerator of which represents the number of years she was a minister's wife in the active work, and the denominator the number of years of his active service.

#### THE AUXILIARY FUND.

5. The Auxiliary Fund shall consist of the following increments :

- (a) Assessments on circuits and departments.
- (b) Interest on invested capital other than Annuity Fund.
- (c) Legacies and donations, unless these are designated for the Annuity Fund by the donors.
- (d) Miscellaneous revenues.

6. The Auxiliary Fund shall be chargeable with the expenses of administration of both funds. It shall be considered an Annual Fund, and shall be disbursed each year according to the following plan :

- (a) Children of widows up to the age of 16 shall be entitled to \$40.00 yearly for maintenance.
- (b) Superannuated ministers shall receive 40 per cent. of the disciplinary allowance as per Discipline of 1902.
- (c) Ministers' widows shall receive the annuity purchased by two-thirds of the value of their husband's annuity payable by the Auxiliary Fund, reckoned at the date of his superannuation, or at the date of his death if he died in the active work. The last clause of Section 4 shall apply in case of second or subsequent marriages.
- (d) In case the Annual Fund in any year is insufficient for the payment of 40 per cent. of the disciplinary scale above mentioned, the Board may lower said percentage so as to balance the account as nearly as may be, and if the Fund shows a surplus, the Board may raise said percentage above 40 per cent.

7. All ministers credited with 20 years' active service shall be entitled to all life annuities from both Funds, and those superannuated after less than 20 years' service shall

be entitled to temporary annuities for as many years as their term of service. The widows of temporary annuitants shall have a claim for the unexpired portion of their husbands' term, if any. The children of the temporary annuitants will be entitled to aid only to the end of the annuity term.

8. The scales of annuities provided by the two Funds as set forth in the foregoing paragraphs, shall take effect on July 1st, 1907, and shall apply to all cases whether present or future claimants.

9. An actuarial valuation of the status of the Annuity Fund shall be made every four years just before the meeting of General Conference and shall be included in the Quadrennial Report of the Superannuation Board.

10. Commutations and refunds shall relate only to the Annuity Fund hereafter. The maximum allowance in case of commutation or refund shall be the "endowment to the credit of the claimant per table 'A.'" But the maximum shall only be allowed when the claimant and his wife appear likely to reach the tabular expectancy of life.

The following table shows the annuities payable to a minister who entered the service at the age of 25, and superannuated at 20 years' service and upward. Tables for the other ages at entry are at the service of the Board if this scheme is adopted.

TABLE SHOWING ANNUITIES RESULTING FROM  
DIVISION OF FUND.

Years Service	Age at Entry, 25.		Total.
	Annuity	Fund. From Annual Fund.	
20	\$38	\$55	\$93
21	42	62	104
22	44	69	113
23	47	75	122
24	51	79	130
25	57	83	140
26	62	87	149
27	68	92	160
28	75	98	173
29	83	103	186
30	91	108	199
31	100	112	212
32	110	115	225
33	122	118	240
34	136	122	258
35	148	125	273
36	158	129	287
37	167	133	300

		Age at Entry, 25.		
Years Service	Annuity Fund.	From Annual Fund.	Total.	
38	175	137	312	
39	183	141	324	
40	190	145	335	
41	195	148	343	
42	200	150	350	
43	205	150	355	
44	210	150	360	
45	215	150	365	
46	220	150	370	
47	225	150	375	
48	230	150	380	
49	235	150	385	
50	240	150	390	

#### APPENDIX.

##### Copy of Mr. Wegenast's Certificate.

Waterloo, January 21st, 1904.

To the Chairman of the Superannuation Commission of the Methodist Church, Toronto :

Dear Sir,—I have considered the plan proposed by Mr. Thomas Hilliard, for placing the Superannuation Fund of the Methodist Church upon a better financial basis, and I concur in his methods.

I have had tables computed (marked A. and B.) of Pure Endowments and Life Annuities based thereon, using the Institute of Actuaries' Table of Mortality and three per cent. interest, upon the assumption of a net annual payment or premium of \$26.70 for both present and prospective male claimants. These tables indicate what, in my opinion, is an equitable annuity for each such male claimant, having regard to his age at entry, years of service and age at date of superannuation. If this net annual payment is made for each such person during the entire period of his active service in the ministry, the annuities indicated in Table B. may be depended upon as permanent.

The annuity at present allowed to the widow of a deceased minister is two-thirds of the annuity enjoyed by her husband. As in most cases the wife is younger than her husband, the fund or reserve required to maintain such an annuity is, in some cases, greater than the reserve for the annuity on the husband's life, notwithstanding the difference in the amounts of the annuities. This rule, therefore, is not a good one and in the new scheme it is proposed to use two-thirds of the reserve required to maintain the husband's

annuity, for the purchase of an annuity on the widow's life, according to the tables above-mentioned. The amount of the annuity which the widow will receive depends upon her age at her husband's death, and to provide for it, a net annual premium, equal to 50 per cent. of the premium for the husband's annuity, is deemed sufficient, or say \$13.35, making the total net annual premium for both the husband's and the wife's annuity \$40.05.

I understand that an annual allowance of twenty dollars is at present made for each child of a deceased minister, until it attains the age of sixteen. Although the aggregate annual claim upon the Fund for this purpose is not large, it is recommended that this payment be discontinued, it being difficult, if not impossible, to compute a premium with sufficient accuracy to meet this obligation.

As there are certain expenses connected with the administration of this Fund, an addition or "loading" of \$10.00 to the net premium is thought to be ample and, therefore, the gross annual premium would be \$50.05. Upon the assumption that all future claims will be paid according to the annuities in Table B., and that present claims will be scaled down to the same basis, this annual payment, I believe, is ample to provide for such annuities from this time forth, no account being taken of the deficit in the reserve which should now be in hand.

I have examined the valuation schedules prepared by Mr. Hilliard and tested individual cases of his computation, which satisfied me that his formulas for ascertaining the present liability under the Fund, and his calculations are correct. Taking the annuities at the amounts now being allowed to present claimants (which will be required to be reduced) and the annuities to be paid to future claimants, according to the new scale, the total liability is approximately, \$2,317,000, and this amount should now be on hand, invested to earn at least 3 per cent. The amount actually invested is, I believe, but \$270,000, so that there is a deficit of over \$2,000,000.

The Fund is, therefore, insolvent, and while nothing short of making good the deficit mentioned will place it upon a sound actuarial basis, something can be done to check its rapid depletion, by providing for interest upon such deficit and by reducing the annuities as already mentioned. I understand that the total revenue for 1903 is, approximately, \$700 for each active minister. As \$50.00 is the premium required for future obligations, the remaining \$50.00 should be used to create a Special Fund to take the place of the interest which would be received upon and added to the reserve above mentioned, if such reserve were in existence and properly in-

vested. In this way the deficit may be kept from growing larger and, in time, be gradually reduced.

I have no hesitation in saying that the present method of ascertaining the claimants' annuities, namely, by allowing \$9.00 for each year of service, is inequitable, inasmuch as no account is taken of either the age at entry into the ministry or at superannuation.

As the present yearly payments of annuities equal the total receipts of the Fund, and in view of the number of claims in expectation, it would appear that the amounts of the annuities now being paid are, in most cases, too great, that the present methods are fallacious and the Fund in danger of extinction.

So far as I have been able to determine from the information available, I feel confident that the new basis of annuities will correct the inequities of the old and will stop the depletion of the Permanent Fund, which, as will be seen by Mr. Hilliard's valuation, is utterly inadequate. And if the new scheme is adopted in its entirety and faithfully carried out, I believe it will eventually place the Fund upon a safe and enduring basis.

Yours truly,

GEO. WEGENAST.