

1908.
NEW ZEALAND.

PUBLIC ACCOUNTS COMMITTEE

(REPORT OF) ON PUBLIC SERVICE CLASSIFICATION AND SUPERANNUATION AMENDMENT
BILL; TOGETHER WITH MINUTES OF PROCEEDINGS AND EVIDENCE.

Report brought up on the 5th October, 1908, and ordered to be printed.

ORDERS OF REFERENCE.

Extracts from the Journals of the House of Representatives.

FRIDAY, THE 3RD DAY OF JULY, 1908.

Ordered, "That a Committee, consisting of ten members, be appointed to examine into and report upon such questions relating to the Public Accounts as it may think desirable or that may be referred to it by the House or the Government, and also into all matters relating to the finances of the Dominion which the Government may refer to it; three to be a quorum: the Committee to consist of Mr. E. G. Allen, Mr. J. Allen, Mr. Colvin, Mr. Flatman, Mr. W. Fraser, Mr. Graham, Mr. Laurensen, Hon. Mr. McNab, Hon. Mr. Mills, and the mover."—(Right Hon. Sir J. G. WARD.)

TUESDAY, THE 29TH DAY OF SEPTEMBER, 1908.

Ordered, "That the Public Service Classification and Superannuation Amendment Bill be referred to the Public Accounts Committee."—(Right Hon. Sir J. G. WARD.)

REPORT.

THE Public Accounts Committee, to whom was referred the Public Service Classification and Superannuation Amendment Bill, have the honour to report that they have carefully considered the same, and recommend that it be allowed to proceed, with the amendments shown on the attached copy.

5th October, 1908.

C. H. MILLS, Chairman.

MINUTES OF PROCEEDINGS.

THURSDAY, 1ST OCTOBER, 1908.

The Committee met at 11 a.m. pursuant to notice.

Present: Mr. E. G. Allen, Mr. J. Allen, Mr. Flatman, Mr. W. Fraser, Hon. Mr. Mills, Right Hon. Sir J. G. Ward.

Public Service Classification and Superannuation Bill.

The order of reference referring this Bill to the Committee was read.

Resolved, That clause 1 as printed stand part of the Bill.

Mr. J. Allen moved that clause 2 be amended by inserting after the word "week" in line 21 the words "and after admission to the fund shall mean service of twenty hours a week, whether casual, relieving, or otherwise."

On the question being put it passed in the negative.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clause 2 be amended by striking out the word "managers" in line 28, subsection (d).

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That the words "or of inspectors, managers, or visiting officers, after the words "Inspectors of Schools" in line 28, be inserted.

Resolved, That clause 2 as amended stand part of the Bill.

Resolved, That clause 3 as printed stand part of the Bill.

Resolved, That clause 4 as printed stand part of the Bill.

Resolved, That clause 5 as printed stand part of the Bill.

Resolved, That clause 6 as printed stand part of the Bill.

Resolved, That clause 7 as printed stand part of the Bill.

Resolved, That clause 8 as printed stand part of the Bill.

Resolved, That clause 9 as printed stand part of the Bill.

Resolved, That clause 10 as printed stand part of the Bill.

Resolved, That clause 11 as printed stand part of the Bill.

Resolved, That clause 12 as printed stand part of the Bill.

Resolved, That clause 13 as printed stand part of the Bill.

Resolved, That clause 14 as printed stand part of the Bill.

Resolved, That clause 15 as printed stand part of the Bill.

Resolved, That clause 16 as printed stand part of the Bill.

Resolved, That clause 17 as printed stand part of the Bill.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clause 18 be amended by inserting the words "whether voluntarily or otherwise" after the word "service" in line 38.

Resolved, That clause 18 as amended stand part of the Bill.

Resolved, That clause 19 as printed stand part of the Bill.

Resolved, That clause 20 as printed stand part of the Bill.

Resolved, That clause 21 as printed stand part of the Bill.

Resolved, That clause 22 as printed stand part of the Bill.

Resolved, That clause 23 as printed stand part of the Bill.

Resolved, That clause 24 as printed stand part of the Bill.

Resolved, That clause 25 as printed stand part of the Bill.

Resolved, That clause 26 as printed stand part of the Bill.

Resolved, That clause 27 as printed stand part of the Bill.

Resolved, That clause 28 as printed stand part of the Bill.

Resolved, That clause 29 as printed stand part of the Bill.

Resolved, That clause 30 as printed stand part of the Bill.

Resolved, That clause 31 as printed stand part of the Bill.

Resolved, That clause 32 as printed stand part of the Bill.

Resolved, That clause 33 as printed stand part of the Bill.

Resolved, That clause 34 as printed stand part of the Bill.

Resolved, That clause 35 as printed stand part of the Bill.

Resolved, That clause 36 as printed stand part of the Bill.

Resolved, That clause 37 as printed stand part of the Bill.

Resolved, That clause 38 as printed stand part of the Bill.

Resolved, That clause 39 as printed stand part of the Bill.

Resolved, That clause 40 as printed stand part of the Bill.

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Resolved, That clause 60 as printed stand part of the Bill.
Resolved, That clause 61 as printed stand part of the Bill.
Resolved, That clause 62 as printed stand part of the Bill.
Resolved, That clause 63 as printed stand part of the Bill.
Resolved, That clause 64 as printed stand part of the Bill.
Resolved, That clause 65 as printed stand part of the Bill.
Resolved, That clause 66 as printed stand part of the Bill.

The Committee then adjourned until 11 a.m. on Friday, the 2nd October, 1908.

FRIDAY, 2ND OCTOBER, 1908.

The Committee met at 11 a.m., pursuant to notice.

Present: Mr. E. G. Allen, Mr. J. Allen, Mr. Colvin, Mr. Flatman, Mr. W. Fraser, Mr. Laurensen, Hon. Mr. McNab, Hon. Mr. Mills (Chairman), and the Right Hon. Sir J. G. Ward.

The minutes of the previous meeting were read and confirmed.

The Public Service Classification and Superannuation Amendment Bill.

Mr. M. Fox, Actuary, attended the meeting and gave evidence.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clauses 12, 13, 14, 18, and 28 be recommitted.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clause 12 be amended by adding the following proviso:—

“Provided that the Board may, with the approval of the Minister of Education, extend the provisions of this section to any case in which the age of a male contributor is not less than sixty years, or the age of a female contributor is not less than fifty years.”

Resolved, That clause 12 as amended stand part of the Bill.

The Right Hon. Sir J. G. Ward moved that clause 13 be amended by inserting after the word “contributor” in line 34 the words “whose length of service exceeds fifteen years, and.”

On the question being put the Committee divided, and the names were taken down as follows:—

Ayes, 8.—Mr. E. G. Allen, Mr. Colvin, Mr. Flatman, Mr. W. Fraser, Mr. Laurensen, Hon. Mr. McNab, Hon. Mr. Mills, Right Hon. Sir J. G. Ward.

Noes, 1.—Mr. J. Allen.

And so it was resolved in the affirmative.

Resolved, That clause 13 as amended stand part of the Bill.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clause 14 be amended by inserting at the beginning of the clause the following new subclause:—

“(1.) When a former contributor while in receipt of a retiring-allowance under the last preceding section re-enters the Education service, and becomes permanently employed therein, his retiring-allowance shall cease and he shall again become a contributor to the fund at such rate of contribution as the Board determines, and if he subsequently retires from the Education service his retiring-allowance shall be calculated separately in respect to his two successive periods of service and of the salary received by him in each of those periods.”

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That the clause be further amended by inserting before the word “When” in line 7 the words “in any case other than that provided for in the last preceding subsection.”

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That the clause be further amended by inserting after the words “Government service” in line 9 the words “or to or for any of the bodies named in the definition ‘Education service’ in section two hereof.”

Resolved, That clause 14 as amended stand part of the Bill.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clause 18 be amended by adding the following new subclause:—

“(2.) If after any person has so retired he subsequently re-enters the Education service and becomes permanently employed therein he shall for all the purposes of this Part of this Act be deemed to have been then first permanently employed in the said service, and shall thereupon be bound or entitled, as the case may be, to become a contributor to the fund in the same manner in all respects as if he had not formerly been a contributor thereto.”

Resolved, That clause 18 as amended stand part of the Bill.

Resolved, on the motion of the Right Hon. Sir J. G. Ward, That clause 28 be struck out.

Resolved, That the Short Title as printed stand part of the Bill.

Resolved, on the motion of Mr. J. Allen, That the minutes of evidence and proceedings be printed.

Resolved, That the Bill as amended be reported to the House this day.

The Committee then adjourned.

MINUTES OF EVIDENCE.

PUBLIC SERVICE CLASSIFICATION AND SUPERANNUATION AMENDMENT.

FRIDAY, 2ND OCTOBER, 1908.

MORRIS FOX, Esq., examined.

1. *Right Hon. Sir J. G. Ward.*] I wish to ask you this question, Mr. Fox: In the Superannuation Bill now before the Committee there is an amount of £7,000 set down to be paid by the Government out of the Consolidated Fund for the Teachers' Superannuation Fund and £3,000 to be paid by the Government for the Police Superannuation Fund: will you inform the Committee whether these amounts will make the same provision as the sum of £20,000 in the Public Service Superannuation Act of last year?—Yes, Sir. The £7,000 in the Teachers' Fund and the £3,000 in the Police Fund are on exactly the same footing as the £20,000 in last year's Superannuation Act. I have given a certificate to that effect in connection with the present amending Bill. £7,000 will be the annual subsidy required by the Teachers' Fund and £3,000 by the Police Fund. This will enable the police and teachers to participate in the higher benefits provided by the Public Service Superannuation Fund, and will place the former funds in a similarly sound position. I explained this matter in my report last year in the following short paragraph: "The essence of these proposals is that the portion of the liabilities which will be met by the members' contributions shall be dealt with strictly in an actuarial manner, while no actuarial accumulations shall be made on account of the remainder of the liabilities not so provided for, which shall be met, as they actually fall in from year to year, by the Government of the day. I am satisfied that a scheme so managed, while giving the minimum of assistance that can safely be given, and in an automatic manner, will be on a sound financial basis, and at all times satisfy actuarial scrutiny." Let me give the Committee an illustration: A public servant may be paying 5 per cent. of his salary as a contribution to the fund, whereas it may be estimated actuarially that the necessary contribution should be 9 per cent. of his salary. The difference of 4 per cent. has to be made up *in some way* by the country. At the time of the passing of the Teachers' Superannuation Act in 1906 it was reported that £17,000 per annum was necessary to make the fund sound. This was practically estimated on the assumption that the contributor would be paying the 5 per cent. himself, while the Government would pay the additional 4 per cent. (or whatever it might be) year by year. Under the present proposals and those which were adopted in the Act of last year, nothing would be required each year from the Government in respect of the above-mentioned 4 per cent. until the pension emerged in thirty years' time. Then, if the pension were, we will say, £90, the man would have purchased £50 of it by his own contributions of 5 per cent., and the Government of the day would have to find the balance of £40 per annum, in lieu of having paid the 4 per cent. each year. If the matter were treated in the same way as was estimated in 1906 in the case of the Teachers' Act, the £20,000 under the Public Service Superannuation Act of last year and this proposed £7,000 and £3,000 would be very much larger. My personal opinion, after very careful consideration, is that the proposed arrangement is actuarially absolutely correct. I may point out to the Committee that during the year that has elapsed since the passing of the Public Service Superannuation Act it has been before the leading actuarial authorities all over the world, and I have heard nothing whatever said against it.

2. In your opinion then, Mr. Fox, these sums of £7,000 and £3,000 are sufficient contributions from the Government towards Teachers' and Police Funds respectively to make the funds actuarially sound?—Yes, Sir; they are sufficient theoretically, and probably more than sufficient practically. The £20,000 provided for in last year's Public Service Act will not be required the first year. It was not possible for me to know then how many would retire immediately. I knew then that it was *possible* for public servants to go on to the fund within three months of its commencement and draw pensions to the amount of £22,800; but they have not nearly all retired, and the sum at present being paid in pensions is, I believe, not more than one-third of that amount. I originally estimated £30,000, but you put £20,000 in the Act, and the age of retirement being changed from sixty to sixty-five made the smaller sum sufficient.

3. *Mr. Laurenson.*] Then, only about one-third of those who were entitled to retire went on to the fund?—Yes, I believe that is so, up to now.

4. *Mr. J. Allen.*] Since you made the estimate for the Teachers' Fund you have adopted a different principle?—Yes.

5. Am I correct in stating it when I say that your principle is to make provision only for the present, and no provision is made by the State for future services?—Yes, that is right, if I understand the question.

6. Are you making any provision now for the responsibilities of the State in regard to future benefits?—If I understand the honourable gentleman aright, the answer is no, as was shown by the illustration I quoted. £50 of the £90 pension is purchased by the man's own contribution, but there is no provision being made by the Government at present for the remaining £40.

7. In what way is the Government to provide in the future for these responsibilities—the payment of the 4 per cent. in your illustration?—By the amounts of £20,000, £7,000, and £3,000, which will be increased, probably each year, automatically as the necessity is shown by actuarial valuations. In all probability they will increase from 5 to 10 per cent. yearly for some time.

8. For what purpose?—The initial subsidy in the teachers' case is £7,000, and this must be increased until the payments have practically the same value as the fixed subsidy under the old scheme would have had. We cannot tell at present how much of the new outlay for pensions in the succeeding years will be provided by the accumulating contributions. The balance will have to be provided by the Government.

9. Will the principle that is being adopted with regard to this first charge be altered in any way after the first triennial investigation?—No, the principle will not be altered. The report will be either that the £7,000 is sufficient or insufficient for the next three years.

10. For what purpose?—To keep the fund sound for the succeeding three years. The members' contributions have to be kept intact and accumulated, and the balance has to be provided out of the Consolidated Fund.

11. The principle of the first period is for the State to provide sufficient to cope with the back services, but not to provide anything for the future?—The same principle is maintained exactly, and at all triennial periods—the same method as was used in the Public Service Act, which showed that £20,000 would be theoretically sufficient, although that sum has in practice been more than sufficient.

12. That readjustment will be on back service?—Yes, and not for the future.

13. Do I understand that the readjustments will only be with regard to back service, and not with regard to the responsibility of the Government if the future contributions are not sufficient?—Yes; to make quite sure there is no misunderstanding, however, let me say that the next three years, which is the future now, will not be the future in three years' time—it will be back service then.

14. Then, at the end of three years, if there is an accumulation of responsibilities, are they made up at the actuarial valuation?—Yes. Let me quote the case of a man who will become a pensioner at the end of three years time from now. He will have had time to make three years' contributions. Supposing his pension is £100, and he has only been able to purchase £8 of that pension, the balance of £92 a year will be paid by the Government.

15. Are there or are there not accumulated responsibilities?—None whatever, except that, as I say, the initial amount will be increased.

16. Can you give us any idea of what the probable increase will be at the end of the first three years?—I cannot do so definitely, because I have so little data. In the case of the Public Service Fund it might go up from £20,000 to £25,000 in three years.

17. You said in the early part of your evidence that these amounts would place the funds in a sound position?—Yes, both of them—police and teachers'.

18. Then, I want to ask you with regard to a pension which probably would not become due for, say, thirty years, after the triennial investigation, would there be any provision made by the State for the three years' responsibility on account of a pension which is not due for thirty years?—None whatever. The provision is made only for those pensions which are to emerge during the next three years.

19. Does the State make any provision for its responsibility in regard to a pension thirty years hence?—No, Sir.

20. And how is it intended that the State shall make provision for that pension?—By increasing the subsidy.

21. When?—Every three years. In twenty-seven years the State will make provision for the pension due to emerge in thirty years.

22. Would it be an accumulating amount as the years go by?—Yes. I can see that for the next ten or fifteen years there is every probability of the £20,000 being increased.

23. Will the increasing amount be a very large one?—There will be a continuous steady increase up to a certain amount.

24. To what amount?—I cannot say definitely, but I think for the Public Service Fund it will probably get up to over £60,000.

25. Supposing we had adopted the plan for the teachers, would we have known our responsibilities from year to year?—Yes.

26. Shall we now know our responsibilities?—Yes.

27. Even with respect to this pension due in thirty years?—Yes.

28. What is likely to be our responsibility?—I shall be able to estimate the liability on account of that pension, but no provision will be made for it in three years' time—not until twenty-seven years hence.

29. *Right Hon. Sir J. G. Ward.*] The difference between the two schemes is this: in the one case there is one contribution from the State, and the amount of that we know, while in the other case there is an annually increasing contribution, the amount of which we do not know?—That is so. We cannot know until after each triennial investigation.

30. Now, I want to ask your opinion upon a matter in the Public Service Act. I had it struck out. It has reference to the allowance of interest, and is provided for in sections 18 and 58 of this Bill. It was a question as to whether we were justified in allowing 3½ per cent. compound interest to a man retired from the service against his will. We decided to leave it out?—I can give my mature opinion best by quoting from my recent report to you, dealing with the Defence Department. I said: "It appears from an analysis of the retirements from the Defence Force of the last five years that about one-half of those who retired would have suffered if they had been connected with the Public Service Superannuation Fund, and for this a remedy is desirable. It would be unjust to debar the others from pensions by excluding the whole of the Defence Force from participation in the fund, and it would be impossible to lower the pension-age so as to meet the Defence regulations without imposing a heavy additional liability on the fund. It would certainly be possible to permit members retiring earlier than the pension-age to continue their contributions after retirement until reaching the pension-age, but this would be only a nominal

privilege, for it is improbable that many would be able to avail themselves of it, and I do not advocate this course. I think the difficulty will only be got over satisfactorily in one way, and that is by allowing interest when refunding the contributions. I have already advocated this course when recently advising the Right Hon. the Premier, at his request, in reference to the amendments generally which I thought to be desirable in the Superannuation Acts. At present when the services of a contributor are dispensed with before pension-age he is entitled to a bare return of his contributions, without interest, as in the case of voluntary retirements. I propose that in such cases of compulsory retirement (except for misconduct) the contributors shall receive interest on their contributions (at a rather lower rate than the rate earned by the fund) in addition to the return of the contributions themselves. This course would entirely remove the serious difficulty which has been reported from the Defence Department. As I have said, many of their contributors to the fund will be compelled by the Defence Regulations to retire before they can possibly become entitled to pensions, either by age or length of service. I find also that there are other public servants whom it is often necessary to retire before age sixty-five or forty years' service, through no fault of their own—*e.g.*, prison warders, policemen, and mental-hospital attendants, and I expect there are others. It would be very unjust to compel such men to contribute to a fund where they must lose the interest on their money and are extremely unlikely to participate in the principal benefit; bare justice will be done in all such cases by legislating in the manner I have proposed. The net result will be that, where a man's services are dispensed with through no serious fault of his own, his pension-fund membership will be automatically changed into a saving-bank membership, and he will be treated as if he had been paying all along into the Public Trust Office under the old law."

31. If that clause allowing 3½ per cent. interest goes into this Bill will it affect the whole of the Public Service?—The Police, Teachers, and Public services will be affected by it. I do not know whether there are any classes in the Railway Service to which that would apply, but it is only bare justice that if it applies to one it should apply to them all.

32. Yes, that is the point I wanted your opinion on—about the provision to be made for sickness, provision for the widow or children in case of death of the contributor; all those benefits have to be paid from the fund, and for those objects definite provision should be made?—Yes, such provision must be made in the case of these people in the Defence Force—men who have contributed for many years and cannot possibly share in the principal benefit.

33. Supposing the contributor dies, and the children left are of age, say, fourteen, the widow would not get so much and the children would not get so much?—I propose to give a lower rate of interest. If you kept back 1 per cent. of the interest earned it would be quite enough to pay for that.

34. *Mr. J. Allen.*] Part IV of the Bill deals with the Government Railways Fund: you cannot give us any information about that, I suppose?—No.

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