

The first is clearly a liability which should be borne by the fund, but the second is not, and it is assumed that the intention of section 49 is that it should be paid for by a subsidy, to be increased from time to time, if necessary, according to the Actuary's report.

The estimated pensions falling due during 1917, 1918, and 1919, and the portions provided by the contributions and to be paid by subsidy respectively, are as follows:—

	1917.	1918.	1919.
	£	£	£
Required for —			
Current ordinary pensions	75,626	71,058	66,623
New pensions and family pensions	17,941	32,708	49,057
	93,567	103,766	115,680
Deduct amount of pensions provided by contributions	14,973	18,519	22,784
Subsidies required for ensuing three years	78,594	85,247	92,896

In pursuance of the foregoing paragraph, therefore, I have to report that, besides the annual subsidy of £48,000 now being paid, further subsidies of £31,000, £37,000, and £45,000 are required for the years 1917, 1918, and 1919, or an average of about £38,000 per annum. In my report for the triennium ended 31st December, 1913, an additional subsidy of £18,000 was stated to be necessary, but owing to the exigencies arising out of the war the recommendation has not yet been given effect to. Of the additional subsidy of £38,000 now required only £20,000 is therefore due to the present triennium. It is to be noted, by the way, that the proportion of pension provided by contributions of employees is steadily increasing.

12. The subsidies paid to the fund so far have in reality been principally old payments in a new guise, taking the place of compensation for loss of office and gratuities; for whilst the Government's total contribution to the fund for nine years has been £300,500, the compensation the pensioners would have been entitled to if they had not accepted pensions was £215,209, reckoning only to the date they joined the fund. To this latter figure must be added the further compensation which would have been payable in respect of service since they joined the fund.

There has also been a great saving in gratuities; for while these amounted to £37,091 for the eight years prior to the establishment of the fund, for the next succeeding eight years they only amounted to £6,065, or a decrease of over £31,000.

13. Since the close of the triennium legislation has been passed postponing retirements until after the war. This will operate to a certain extent as a relief to the fund. The change in the control of investments, coupled with the hardening tendency in the rate of interest, will also for some time to come probably bring to the fund an accretion of income beyond that anticipated in the valuation basis.

GENERAL REMARKS.

14. As previously reported, the present subsidy is based on the current pensions paid in excess of what the contributions therefor have purchased. The pension list is a growing one, and the subsidy required will increase for many years, and it is very desirable that these additions should be secured in some automatic manner without the necessity, as at present, for new legislation. The suggestion that the subsidy should take the form of a fixed percentage of the annual salaries was discussed and favourably commented on in my last report.

Another and somewhat similar method is that of a subsidy on the contributions actually paid by the public servants themselves. For instance, a subsidy of 67 per cent. on the contributions of males and 78 per cent. on the contributions of females would extinguish the deficiency in approximately seventy-five years, assuming the expansion of the Dominion to continue at the same rate as hitherto. After that the subsidy would drop to a very much smaller figure. The annual cost at the outset by this simple method would be about £96,000 per annum, compared with £86,000 now required under the present method, and it is worthy of remark that this is a less percentage of the contributions of members than was paid by the Government directly or indirectly to the support of the National Provident Fund for the year ended 31st December, 1916. The simpler method, though costing a little more at the outset, would cost less later on.

Although £96,000 may seem a large sum, it is not so relatively, inasmuch as it comes to less than 5 per cent. of the salaries paid. Judging by ordinary commercial standards this is but a moderate price for the State as employer to pay for the considerable advantages it derives from the existence of a superannuation fund. It is, of course, erroneous to suppose that the fund exists only for the benefit of the public servants, or that in paying the above subsidy the State would be doing anything more than any large employer would and does find it to his advantage to do.

In this connection the following remarks by the late Mr. H. W. Manly, past President of the Institute of Actuaries, London, a world-wide authority on pension funds, are particularly applicable: "A fund maintained in a sound financial condition is, in my opinion, a blessing to both employer and employed. The employer secures a continuity of service, for the employee will think twice before he leaves a service where he has a number of years to his credit for pension, for a small additional income; and if he (the employer) makes a proper contribution to the fund, in addition to guaranteeing a good rate of interest, he secures efficiency in the service by superannuating his servants with a reasonable pension when they are no longer useful. His salary list is a good 5 per cent.—I am inclined to think in many cases nearer 10 per cent.—less than it would be if there were no fund, and I do not think, therefore, that he can reasonably object to subscribe 5 or 6 per cent. of salaries to the fund." (J.I.A. 45/183.)